Canada. Foreign Trade Service
[Reports on Mexico, Colombia and Venezuela, by Edward C. Thorne]

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Contents:

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Introduction

The purpose and scope of this report is to reveal the results of a recent tour of Mexico-Colombia-and Venezuela, which I had the honour of making on behalf of the Export Branch of the Foreign Trade Service, Department of Trade & Commerce, Ottawa.

A brief study of the levels and patterns of foreign trade is included in the individual reports for each of the countries, in order to provide perspective on the relative magnitude of possible Canadian exports to these countries, as seen at the time this is written.

It was September-season of harvest and festival when I arrived in Mexico. Due to unforseen circumstances in the form of a flight cancellation, I completed my journey on to Mexico by train, which started at the point where the great land mass of North America, in the form of fertile prairies and productive valleys, tapers out to the Sierras, which is Mexico.

I was glad of the opportunity for making this journey by train, as it is only by this means that one realises how strangely Mexico differs from the United States, passing through sandy desert with no outstanding features, to the high plateau and mountain ranges where the great city of Mexico is located.

The balance of my journey was made by air, and to enumerate all the details would be impossible. Suffice it to say, however, that for the most part, due to the topographical conditions, altitude precluded any sight seeing, with the exception perhaps of the occasional snow capped peak which projected through the sea of cloud below us.

As Canada strengthens its diplomatic relations with the Latin American countries, and more and more Latin American visitors include Canada in their tours, and learn about our Country, the specific question that arises is; Can Canada export essential commodities to these countries on a comparable basis with the U.S.A.?

As indicated in my reports, nearly all producing activities in Mexico, Colombia, and Venezuela, have been stimulated. The prime cause has been the need for essential strategic war materials, which these countries were able to supply, coupled with the fact that during the war it was almost impossible for them to import merchandise and equipment.

The emergency intensity of manufacture as a result of the foregoing should moderate as the backlog of requirements subsides during the post war period, however, the introduction of import controls, due to dollar shortages, may tend to lengthen the tailing off period. On the other hand, it may also sustain the demand for essential equipment in order to keep these countries self sufficient. In this connection opportunity is broadened for individuals who possess adaptive power.

It is a little difficult to form a clear idea to what extent the economic changes in these countries is going to improve the overall living standards of the population, thereby enhancing both the expansion of technical production, and consumer market requirements. Obviously, each Nation will be affected differently, but generally speaking I would venture to say that ultimately, most of the countries concerned can look forward with optimism towards better employment, business and productive activity.

In an effort to aid the cause of those who do not have the time or need to wade through the innumerable specific details contained in the individual reports, I have prepared the following brief summaries:

In Mexico for geographic reasons and because of the very extensive penetration over a long period of years, accompanied by generous loans earmarked for American products, the United States has a commanding situation. In fact, her penetration is so strong that she probably controls in the vicinity of 85% of the total import trade in Mexico. It is true that Canadian Mexican reciprocal trade has increased from fourteen million pesos in 1939 to sixty million pesos for the first six months of 1948, but this is still a relatively small proportion of Mexico's foreign trade.

In Colombia Canada enjoys the highest possible good will and has become the preferred source of supply for many raw or semi-manufactured materials for local industry. Canada I believe, could become a more important source of supply for industrial equipment needed in Colombia, and certainly the impression I got in discussions with Colombian industrialists and importers, was, that they would prefer to reduce their dependence on American supplies if reasonably comparable advantages could be offered by Canada. However, since the United States buys 90% of Colombia's leading export, namely coffee, this is the main source of most of Colombia's foreign exchange, and therefore the United States by virtue of these purchases enjoys by far the best position in Colombia's import trade.

Venezuela is probably unique at the present time inasmuch that she has ample stocks of gold and dollar exchange to finance its imports and the needs of its expanding economy. As shipments of petroleum account for 95% of Venezuelan exports, and the Venezuelan manufacturing industry is not able to meet domestic demands at this time and is almost exclusively confined to the production of light consumer goods, there is every indication that this market will continue to be a very high level foreign trade market for machinery and industrial equipment, therefore, Canada's participation in this business will depend entirely upon the ability of our industries to meet competition from other countries. Venezuela is definitely a buyers market at the present time.

The conclusion I arrived at for the three countries is basically the same. There is no doubt that a good local agent is a must, but he is no good unless the company he is working for provides suitable technical advice and assistance. One of the most important needs is to be able to supply the technical knowhow with the sale of technical equipment, and unless this sort of service is provided by Canadian industry I would go so far as to say that there is very little chance for Canadian equipment being sold throughout South America.

I also believe that industry in these countries will materialize only through a basic improvement in the people themselves. Improved standards of living, better consumption of essential food stuffs, and better housing are only a few of the important needs that have to be considered.

While there has been a remarkable increase in Canadian representation in these countries, one cannot overlook the fact that the United States of America and also the United Kingdom are both very strongly represented in the same territory, and as these countries offer easier terms, it may be necessary in the future for Canada to consider better credit facilities.

MEXICO

A

REPORT ON

ECONOMIC AND COMMERCIAL CONDITIONS

BY

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FOREIGN TRADE SERVICE

DEPARTMENT OF TRADE & COMMERCE

OTTAWA, ONTARIO.

INDEX

1. GENERAL CONDITIONS

Mexico has an area of 758,000 square miles and the present population of the country is estimated at 25,000,000, comprising 55% Mestizo, 29% Indian, 15% White and 1% other racial stock.

Mexico is largely a high plateau, open to the North with mountain chains on the East and West, and with ocean front low lands lying outside of them. The eastern mountains are marked by high volcanoes, including POPOCATEPETL 17,888 feet, IXTACCIHUATL 17,328 feet, and the loftiest of all ORIZABA 18,209 feet.

Mexico's earliest history is somewhat obscure, but we do know that two civilized races, the Mayas and later the Toltecs preceded the Aztec Empire, which was conquered in 1521 by the Spanish under Cortez. Mexico was ruled by the Spanish for the next 300 years until 1810 when the Mexicans first revolted, and continued the struggle until 1821, at which time they won their independence by the Treaty of Cordoba. This independence is now celebrated annually on September 16th, which is known as Independence Day.

Turbulent years followed, and from 1821 to the rise of Diaz in 1876, there were two emperors, several dictators, and enough Presidents and provisional executives to form a new government on the average of every nine months. The next few years were marked by bloody political and military strife, and from 1934 to 1940 General Lazaro Gardenas, backed by the International Revolutionary Party (P.R.M.) began a socialistic programme of land distribution to peasants, government seizure of foreign owned oil lands, and labour party reforms.

However, in World War II, President Manul Avila Camacho cooperated with the United Nations, and followed Cardena's policy at home. In July 1946 Miguel Aleman was elected President, backed by the Camacho Administration, and is still holding the position of President up until the present time.

Mexico has experienced a tremendous growth in recent years. Between 1939 and 1946, Mexico, in common with other Latin American countries, was an essential source of supply for a series of strategic materials, and also during that time badly needed machinery was not always available, and both old and new plants were faced with the problem of using makeshift and substitute equipment. This, of course, was to their financial advantage, and many manufacturing companies accumulated capital resources which have since been converted into new equipment. The result, however, has been that exchange reserves have been depleted to dangerous levels, and Mexico is now faced with a dollar crisis, and Canada's export trade with Mexico is suffering accordingly.

One of the biggest obstacles to progress in Mexico is the illiteracy of the people, coupled with the fact that the majority of the population suffer from disease and malnutrition and lack of proper housing accommodation. Another important factor is that water and sanitation are conspicious by their absence. Furthermore, the lushness of the tropical lowlands has been greatly exaggerated, and where pockets of fertility do occur, they present more favourable conditions for disease germs than for men.

All this, coupled with the topographical conditions which present a formidable obstacle to communication, the anti American feeling, the political instability, and the apparent laziness of the Latin American race, tends to make conditions in Mexico totally different from those found either in Canada or the United States.

Government control of the national economy is ever increasing in Mexico, and, there is still a clause in the Constitution of Mexico whereby the Government can take over private business at any time. Also, the Mexican Government, through its policy of high duties on foreign made articles, is doing everything it can to protect and promote manufacture within the country. New enterprises are tax free from five to ten years, and raw materials are also duty free, but this concession is not automatic and each application is considered on its own merits.

Labour, which I have not previously mentioned, is becoming an increasing problem for employers. Unionism has made great strides in Mexico in recent years, and with increasing strength is becoming more difficult to manage. Many of the leaders are radical and irresponsible, and because of the low standard of education among the workers, their influence is quite strong. Industries have to be prepared to pay out substantial amounts to keep the goodwill of endless numbers of inspectors, who, if dissatisfied can cause many unpleasantries.

2. FINANCE

(a) National Finances

The economy of the country has been such that Mexico has always been in trouble with regard to balancing her budget. Contrary to Canadian procedure, Mexico employs export tariffs for revenue purposes, and the latest scheme in that regard is to impose an added 15% ad valorem on all exports from Mexico following the devaluation of the peso. This has been rescinded on a few articles where pressure has been brought to bear, but it still applies in most instances.

Owing to an extensive policy of Public Works (far more than Canada has considered in proportion to her budget), Mexico has drawn very large sums of money with the net result that she is considerably in debt to the suppliers of goods for federal purposes. On top of this system, Mexico has a series of Federal controlled banks, such as Nacional Financiera, and funds from banks such as this have been used for a wide variety of purposes, oft-times uneconomical in character, and particularly where "politicos" have had a personal interest.

Also, the nationally controlled activities, such as the exclusive control of the Oil Industry, Railways, and in part hydro electric promotions, are always in the red, and the national railways at the present time are bankrupt and owe large sums of money to a Government, which is already embarrassed in its finances.

(b) Public Debt

The history of Mexico following the exile of President Profirio Diaz in 1910, has been one of steady repudiation, and it is a common saying in Mexico that anyone receiving payment in pesos for dollar debts, unit for unit, is extremely fortunate. In other words, anything received from ten to twenty per cent on Federal bonds is considered reasonably fortunate.

Nevertheless, the United States Government have thrown into Mexico large sums of money; one recent loan was a fifty million equalization fund to maintain the peso at 4.85. However, they have been unable to hold it there, and the peso has depreciated violently since then to the present situation of 6.91 to the dollar.

Another fifty million dollars was granted to Mexico, and earmarked for specific Federal activities from United States sources. Naturally no Canadian orders can be placed, where Mexico utilizes these funds for obtaining heavy goods. This is particularly applicable to the National Railways, whose only source of supply now in its bankrupt condition, is in certain allocations of the above sum, and they are still getting rails and rolling stock from this source in the United States.

(c) Exchange

Owing to large Government expenditure for Public Works, coupled with the constant adverse balance of trade, the Mexican peso on July 22nd, 1948 went off the established standard of 4.85 to the dollar. The United States Government had done everything within its power to maintain the exchange at that fixed rate, even to the point of conceding concessions obtained from Mexico under part one of the American Mexican bylateral trade agreement, which froze 203 items in the Mexican tariff. Despite every concession granted by the United States, the peso has depreciated to the figure of 6.91 at the time of writing, and discussions are proceeding in Washington with the International Monetary Fund to see what can be done to again stabilize the peso, which is so ardently desired by business men. Nevertheless, in Bank circles, it is freely admitted that it would be far better for Mexico if it would maintain an open exchange.

The Mexican Government through its Finance Minister, Ramon Beteta, has been making strong efforts to establish a small reserve of American dollars, for the reason that the International Fund will not loan money to any foreign country which has an unstabilized exchange rate. There have been persistent rumors that the Mexican Government has bought exchange pesos all the way up to 6.25 to the dollar, and is still purchasing dollars with a view to establishing a reserve prior to their efforts to obtain a fixed rate. No confirmation on this point can be obtained, although the information comes from a reliable source.

(d) Plans of International Payments

As regards Mexican international plans of payments position, no satisfactory solution can be achieved until this country plans her exports and imports. This immediately brings up the point of her oil situation, upon which Mexico very much depends to correct this unfortunate position. Contracts have been let with two important American oil companies to drill new wells, but the conditions imposed by the Mexican Government (owing to its strong feeling of nationalization) have been so onerous that little progress has been made; and in fact, an estimate by the United States Government shows for the current year, that domestic oil consumption will be slightly over domestic production.

If by 1955 no large deposits have been found and developed, it is estimated that there will be an adverse balance in excess of 27 million barrels per annum, which will still further aggrevate Mexico's plans of payment position. It can therefore be safely predicted, that unless Mexico deliberately sets out to improve its foreign trade position, and decreases her import of all classes of luxury goods, within two years even with a stabilized peso, she will again be in the unfortunate position where she is to-day, and no one can forecast where the peso may go.

Another very important and unfortunate situation is that of food products. Prior to the agrarian policy of President Cardinas, when all the Haciendas and large estates were broken up, Mexico was an exporter of Cereals and Foodstuffs, and, even in 1939, she imported only about two million dollars' worth of foodstuffs from the United States. By 1947, imported Foodstuffs from the United States had grown to the enormous total of thirty-four million dollars, which indicates that no real effort is being made to improve and increase Mexican crops.

(3) PRIMARY AGRICULTURAL PRODUCTION

Though Mexico is one of the largest countries in Latin-America, it is also one of the poorest in agricultural soil. The fact that the country's sub-soil is rich in oil, silver, gold and other minerals, has spread the erroneous impression that Mexico's top soil is equally rich. One of the many reasons for Mexico's widespread poverty is that this is not the case.

According to official figures, only twenty-three million hectars, or 12% of the total area of the country can be used for agricultural production. The rest is pasture, forest, desert, or land otherwise unfit for cultivation. However, of the twenty-three million hectars which could be brought under cultivation, only two million hectars are abundantly supplied with rainfall. This represents 1% of Mexico's land surface. Another fifteen million hectars are at the mercy of uncertain water conditions, while seven million hectars could be reclaimed through irrigation.

Adolfo Orive Albo, an executive of the National Irrigation Commission, claims that these figures demonstrate why Mexico can never be a great agricultural country, and must therefore look to industrialization as its salvation. Unlike the United States and the Argentine, which have vast fertile regions with adequate water supply, Mexico can utilize little more than nine million hectars, seven million of which will have to be irrigated. Nevertheless, Orive Albo believes that these nine million hectars, if adequately exploited, will meet the needs of the industrialists of Mexico, by supplying the population with enough food, and by furnishing industry with a considerable amount of raw materials. The Camacho Administration spent a total of 656 million pesos during the last six years to revive some 700,000 hectars, raising the total irrigated area of the country to approximately one million hectars.

His immediate successor, President Miquel Aleman, is following his policy of increasing the rate of investment in irrigation development, and Aleman recently announced that during his six year term, he will spend 1,500 million pesos, or more than twice the amount invested by his predecessor on irrigation schemes.

He also said, the irrigation projects realized by the Administration will open the cultivation of a total of 1,400,000 hectars so far unworked, and 300,000 hectars now in unsatisfactory condition. By allotting part of the new irrigated area to wheat, corn and sugar, President Aleman said, the country may overcome the national deficit in the production of these crops during the first part of his term.

Many of the Mexicans still plough with forked sticks, but there has been an increased demand recently for farm machinery. Stock raising is important on non-arable land, but this industry received a severe setback due to the recent scourge of foot and mouth disease. The major agricultural crops of Mexico include alfalfa, beans, coffee, corn, cotton, potatoes, rice, sesame, sugarcane and wheat. In the Akatan Peninsula, and at the Southern end of the Gulf of Mexico, Mexico raises a very large crop of sisal hemp.

Corn tillage is mostly effected by animal drawn plough, seeding is done by hand, and no harvesting machinery is used. In some districts, the use of tractor drawn equipment is increasing, and the use of large threshers and combines is becoming evident. Cotton farming is using more mechanized equipment similar to that used in the United States of America, sugar farming still employs manual labour for the most part.

During the time I was in Mexico, a statement was issued by the Secretariat of Agriculture that Mexico will acquire agricultural machinery to the extent of thirty million pesos for the purpose of mechanizing an exploitation of soil. He also announced at that time, that several American credit institutions had already made offers to the Federal Government to assist in making these purchases.

4. MANUFACTURING INDUSTRIES, CONSTRUCTION AND SECONDARY INDUSTRIES

Probably the most striking feature of the manufacturing and processing industry throughout Mexico, is the fairly large number of relatively small establishments. Many of these industries are geared up only to take care of domestic requirements, and a great number of these companies operate either with United States technicians employed on a management or technical contract basis, or the ownership is vested in, and managed wholly, by United States capital.

During 1947, a total of 4,049 new industrial undertakings were established including large, medium and small industrial units. Amongst the most important were plants for the processing of steel, chemical products, fish and meat packing, construction materials, cement, aluminum rolling, agricultural implements, and tanning establishments. Other industries presently established in Mexico include:-

Vegetable Oil Extraction
Diverse Rubber Products
Clothing
Footwear
Cement
Matches (mostly wax)
Beer
Canned Foods
Cigarettes and Cigars
Iron and Steel Foundries
Cotton Textiles
Wool

Rayon & Silk Textiles
Soap
Wheat Milling
Paper
Glass
Petroleum
Mining
Lumbering
Fishing
Pottery & Flatware
Jewelry & Ornaments
Furniture

(a) Steel

Mexico's Steel Industry is modernizing its older mills, and planning •nes in expectation of continued growth of her Steel production. The Mexican Iron and Steel Industry is centered in three main plants, the largest of which is known as the Cia Fundidora de Fiero, y Acero de Monterrey. This company, which has a rated blast furnace capacity of 125,000 tons, operates its own iron mine at Durango, in addition to open hearth furnaces, rolling mills and pipe-making facilities. The blast furnaces of Cia Fundidora de Fierro, have suffered intermittent shutdowns owing to the inability of the Mexican railroads to transport sufficient coke from the American Smelting and Refining Plant at Nuva Rosita, Coahuila, and furthermore, considerable delays have resulted in deliveries of Iron Ore from the Iron Mountains in Durango, for the same reason. The Company also suffered a recent set-back due to a strike which had been in effect for some months, and while I was visiting Monterrey, we were unable to see the mills owing to the strike, and as far as I could gather there was no settlement in sight.

Altos Hornos, the only other firm operating blast furnaces in Mexico, stepped up its production sharply in 1946 and is now producing at an annual rate of 90,000 tons. The firm of Altos Hornos is located at Monclova Coahuila, and also operates hot and cold rolling mills and the only tinplate mill in Mexico. It has its own iron and coal mines and produces about half of its own coke. This company is said to be considering adding a third open hearth furnace, building new soaking pits, and increasing its blast furnace capacity by the addition of new blowers, which will give it a total producing capacity of 144,000 tons a year.

La Consolidada S.A. which operates an open hearth furnace at Piedras Negras, near Eagle Pass, Texas, and a rolling mill in Mexico City, is building a new rolling mill at Lecheria some twenty miles from Mexico City. La Consolidada operates the only steel foundry in Mexico and in addition has facilities for making springs and steel wire. In addition to the above three other firms namely, Laminadora de Acero S.A., Acero Nacional S.A. and Hajalata y Lamina S.A. are also engaged in the Mexican steel industry, Laminadora only started its rolling mill operations last year, and its main production is small shapes and angles. The Acero Nacional plant located at Tlalnepantla, is similar to that of Laminadora, but its main production will go to Cia Nacional de Claves for manufacturing wire, nails, etc. Hajalata operates a small strip mill, its steel requirements being supplied by a ten ton electric furnace. With Mexico undergoing a period of industrial growth, it is only reasonable to anticipate that steel making will soon be ranked among leading industries in the country, and, no doubt the Mexican Government under the leadership of Maguel Aleman, will carry out a policy of internal development which will touch on this particular programme.

(b) Minerals

Mexico probably leads the world in silver production, mining about 40% of the total. It also produces antimony, cadmium, lead, and zinc. However, most of the mining properties are foreign owned. For example, the American Metal Company in Monterrey, is a subsidiary of the American Smelting and Refining Company. This company operates a fairly large smelting and refining plant, comprising of four blast furnaces with an annual charge capacity of approximately 250,000 tons, and four softening furnaces and four kettles having a capacity of approximately 108,000 tons.

However, all the lead produced here is channeled back into the United States.

(c) Copper

The copper plant of the La Consolidada S.A. in Mexico comprises a complete copper wire drawing and finishing plant. Copper is purchased from the American Copper and Brass Company, and is treated for working at La Consolidada after the copper ingots have been meted down. A wide variety of copper wire is manufactured here, ranging from magnet wires up to a larger low voltage power cable, and it also makes high voltage polyethylene and vinylite insulated jacketed cables. It is also getting into production in the manufacture of formal wires with which it hopes to supply the new electrical manufacturing industry recently established in Mexico.

(d) Power

In 1946, the Mexico section of the American Institute of Electrical Engineers, prepared a report analysing the estimated requirements to supply the increasing demand for power in Mexico up to the end of 1949. The results obtained up until the end of 1947, show that the forecast made for 1947 was on the high side, as actual generation during that year was 3,598,000,000 k.w. hours, whereas it was estimated that approximately 300,000,000 k.w. hours more would be generated. Two of the causes of this reduced generation were delays in delivery of power equipment from the United States, and a shortage of water in 1947 which effected the hydro electric systems supplying more than 80% of the power in the country. Because of these factors, the use of power was restricted in many instances to 50% of normal consumption. While the Government, through the medium of the National Irrigation Commission, plans the utilization of Mexico's hydraulic resources for irrigation required to ensure agricultural production, the hydraulic policy of Mexico is such, that before river water is utilized to irrigate, whenever possible it should be stored and used to generate the maximum possible amount of electrical energy, thus paving the way for an abundant and cheap supply of power.

How this policy is being carried out is emphasized by the fact that there are already three projects under consideration, one in the North known as the Mazas project, one in central Mexico known as the Tepalcatepec project, and one in the south known as the Papaloapan. According to estimates the Tepalcatepec project when completed will produce some 231 million k.w. hours of power and irrigate 62,500 acres of soil, the Mazas project when completed will generate 140 million k.w. hours of power and irrigate some 405,000 acres of land. The estimates for the Papaloapan project have not yet been completed, however, as this project will harness the great tropical Papaloapan river, its contribution will be quite big, and furthermore, the project will prevent annual floods that presently devastate the lands and villages along this river. In the meantime, because Mexico's population is concentrated in small towns, and because rural centres offer little or no incentive to public utilities, the Federal Electric Commission has embarked on a programme of rural electrification. A standard type of power plant has been agreed upon for the initial steps of the programme, consisting of diesel units of from 100 to 300 k.w. These installations will be grouped in such a way, that later on, some of the groups can be inter-connected to make large systems, until such a stage is reached that the erection of transmission lines to join these groups becomes justifiable from an economical standpoint, and also when the new hydro projects under consideration come into being.

The installed capacity in 1920 was approximately 160,000 h.p. while in 1946 this figure had been increased to 900,000 h.p. The production of electrical power is still very small with respect to needs and potentialities, and according to statistics the number of generating plants in 1940 was only 163, and it is estimated by the end of 1948 that this figure will have increased to 200.

(e) Pulp & Paper

Mexico's pulp and paper industry dates back to 1649, at which time the installation of the first paper mill took place. In 1947 some 14 important mills making practically all known grades of paper were operating in Mexico, making the pulp and paper industry one of the most important and progressive in the country. One of the largest and most important of the pulp and paper companies is that of Cia. de Las Fabricas de Papel de San Rafael y Anexas. Two mills are operated by this company, the largest is at San Rafael, nearly 35 miles south east of Mexico City, and the other mill is located at Progreso, 25 miles north west of Mexico City, and is known as Fabrica de Papel "El Progreso".

The San Rafael mill has an altitude of approximately 8500 feet, and probably is the highest pulp and paper mill anywhere in the world. Pulp wood is brought to the mill by Indian cutters on the backs of burros, and the name of this pulp wood is "Oyamel", this is a short leaved spruce similar to but smaller than that grown on the Canadian North Pacific coast.

Part of the pulp produced at San Rafael, particularly ground wood provides part of the raw material for the company's smaller mill at Progreso.

According to statistics, in 1947, Mexico's pulp and paper industry produced 32,971 metric tons of unbleached sulphate, and 18,137 metric tons of ground wood. Furthermore, in 1947 the production of paper amounted to 99,380 metric tons and paper board 13,768 metric tons.

The Mexican paper industry faces difficulties in obtaining raw material for paper making, because most of the forests in Mexico are to be found in extremely mountainous districts, and are practically without means of transportation. Because of this factor the Mexican National Government has approved plans for long scale reforestation, and a special organization known as "Unidades Industriales Fovertales" has been formed which will assume the responsibility of this reforestation, as well as that of exploitation.

(f) Electrical

The creation of Mexico's first electrical industry was undertaken by a group of technicians and industrialists of Mexico and the United States, headed by the Banco National de Mexico S.A. Kuhn Loeb and Company of New York, aided by the experience of Westinghouse Electric Corporation and Westinghouse Electric International Company. This group formed the Industria Electrica de Mexico, S.A. and the company was established for the purpose of manufacturing electrical machinery and equipment for the industries of Mexico, as well as for public utilities and household needs. The plant of Industria Electrica de Mexico S.A. is located in Ciudad Electrica, State of Mexico, and started production in December, 1947.

The manufacture and assembly plant is a large one floor building nine acres in area. The 480 foot width is divided into 8 aisles, and there are 13 travelling cranes with capacities up to 25 tons. In the main office building, the plant management and engineering division, accounting branch, and medical services together with dispensaries and first aid stations are housed. There is also a cafeteria which provides meals for the entire personnel in the plant at less than cost.

In addition to the foregoing, a paint and varnish factory consisting of three buildings, apart from the rest of the plant is operated by the same management. This plant is fitted up with up to date equipment for the manufacture of a full range of paint and varnishes.

While the Industria Electrica de Mexico plant has some of the finest equipment, and a potential capacity capable of producing a wide variety of products coupled with a technical assistance agreement with Westinghouse, the fact remains that the efficiency and potential capacity of this plant has been exaggerated. The reason for this is due to the fact that there is a dearth of specialized workers, and little or no possibilities of markets to provide outlets for the products and enable large scale production methods being introduced in the shops. If the plant were to get into production on the mass production scale envisaged by the management, I would say that Mexico's domestic requirements for household and commercial products in the form of ranges, washing machines, radios and etc. would be taken care of in about six months.

Insofar as exports are concerned, it is difficult to visualize how a company such as Industria Electrica de Mexico could possibly compete either in standards of manufacture, design and quality, and especially price with comparable production either in the United States or Canada.

At the time of my visit the entire plant with the exception of the technical and supervisary staff, and 150 employees, who had taken special training courses in the various Westinghouse factories in the United States for a period of 24 months previous to the plant starting up in Mexico, were being paid a learners basic wage. The earnings of the majority of the employees therefore, is so small that it was necessary to subsidize the meals sold in the cafeteria in order that a workman could afford to buy a meal. This subsidizing of meals is being taken care of in production costs, and in addition, an elaborate medical setup with doctors, nurses, free medicines and treatment is also financed in the same way. Furthermore, it was understood that when the present labour contract expired in October this year, that the learners rate would cease to be paid, and the employees would have to go on full rate of pay in accordance with union demands. Under the circumstances, therefore, it is difficult to see how this company could possibly compete with modern American production methods, and, if they are to participate in the market for electrical products in Mexico, which was estimated would reach approximately 200,000,000 United States dollars in the six-year period 1948 - 1953, they will only be able to do so by selling their products under Government controls, at costs considerably higher than those imported from Canada or the United States.

(g) Textiles

Mexico's textile industry is engaged primarily in cotton manufacturing, and mills are highly integrated units processing material from the raw cotton stage to finished article. The type of material that is manufactured is for light weight cotton goods that are sold to the Peons for home sewing of shirts, trousers and other clothing. Many mills do their own dying and finishing.

Mexico also has additional mills engaged in woollen spinning and weaving, rayon weaving and the manufacture of hosiery and underwear. There are also a number of medium sized woollen and worsted mills, and a number of small manufacturers with looms and knitting machines operating on domestic and imported yarns. The textile industry grew up in Puebla, and for many years this was considered to be Mexico's textile centre. However, with the industrial growth in Mexico during the last few years, a number of large establishments are now operating in Mexico City, Guadalajara, Monterrey and San Luis Potisi.

(h) Cement

Mexican cement industry has witnessed a great expansion, and the increase in cement consumption is due entirely to domestic requirements.

Mexico has abundant raw materials for cement manufacture, and the expansion of the industry has been affected by the use of reconditioned machinery, employing mill equipment dismantled in the United States, and with American engineers acting in a consulting capacity. Since the war, however, a large number of new plants have come into being, and many of the old plants are being modernized now that equipment is available. Throughout Mexico it was noticed that Allis-Chalmers equipment was almost exclusively being installed.

(i) Petroleum

In 1938 the Mexican Government expropriated the petroleum industry from United States, Dutch and British oil companies. Since this date the operation of the petroleum industry has been carried out almost exclusively by the Government under the trade name of Pemex.

Over the last several years, with equipment shortages existing all over the world, Mexico's oil industry has lived off the fat of the properties, and during this time only small additions have been made to proven reserves, and only minor repairs made to plants and pipe lines.

While the war period may have accounted for one of the reasons that no new drilling was undertaken, it was by no means the major factor, and for the most part the neglect has been due to lack of proper co-ordination and technical knowhow.

As a result of this lack of new development in Mexico's petroleum industry, exports have been seriously curtailed, and Mexico is only withdrawing sufficient crude oil to meet domestic requirements and restricted exports. It is common talk amongst business men in Mexico, that if the Government would only concentrate on her oil potential, she would earn enough American dollars from this industry alone to create a favourable trade balance and the value of the peso would be restored. As it is now, disconcerting reports are circulating on the condition of the wells, and it is said that salt water is seeping in in some instances, and in others that it cannot be controlled, and the oil is wasting away.

The refineries are not making good gasoline, or enough of it, and Mexico has to import gasoline to meet her domestic requirements. Recently an attempt was made to produce high octane gasoline for aircraft. Samples of this gasoline were submitted to the American aeronautical authorities, and it was found that it did not comply with their standards, with the result that American airlines operating in and out of Mexico will not use it. In spite of the fact that this Mexican Aviation gasoline does not meet the high standards required for comparable gases manufactured in the United States, the Mexican National Government has slapped on a prohibitive duty on the import of United States high octane gasoline, in order to force the airlines to use the Mexican manufactured aviation gasoline. However, in spite of this prohibitive duty, both Pan American Airways and American Airlines are bringing in their own supplies, and will not use the Mexican products.

(j) Chemicals

The chemical industry in Mexico is relatively young. Some small and large chemical factories have come into being since the end of World War II, but a number have failed from lack of knowhow.

Ethyl alcohol is prepared from a sugar cane molasses. Ammonia is being produced by the American Smelting and Refining Company as a by-product in the distillation of coal to obtain ammonium sulphate. Neither industrial synthetic ammonium, nor synthetic cyanides are being manufactured in Mexico at the present time.

Sulphuric acid is also being made by the American Smelting and Refining Company by utilizing the sulphur dioxide obtained in roasting zinc concentrates. The firm Fabrica de Acidos La Vega also produces industrial sulphuric acid and in addition industrial grades of acetic hydrochloric and nitric acid.

Potassium chlorate an important chemical used in many Mexican industries is not manufactured in Mexico at the present time, but a firm by the name of Productos Quimicos Mexicanos S.A. is considering entering into this field. Zinc oxide is manufactured by a number of companies, and the spelter used in the manufacture of zinc oxide is obtained from the zinc refineries in the country. Sodium silicate for plate glass is produced at Monterrey by Vidrios Planos.

The utilization of crude oil and natural gas as a basic raw material in chemical processes for the manufacture of synthetic resins and rubber, as well as a variety of basic chemical substances is under review. However, the development of petroleum plants for derivatives requires the installation and technical control of catalytic cracking plants, vacuum condensers, distilling and fractionating equipment, which the petroleum refineries in Mexico do not possess at the present time. It is quite possible that if the Mexican oil industry is reorganized, that provision will be made for the new machinery and equipment requirements.

The United States chemical industry is playing an important role in advancing the chemical industry of Mexico. The Celanese Corporation of America has recently completed a $5,000,000 rayon plant just outside Mexico City, and other companies are cooperating in another cellulose development. The Hewitt Rubber Corporation, who manufacture rubber mechanical goods in Mexico, have recently arranged for an additional supply of mechanical equipment and technical knowhow to considerably increase their output in Mexico.

(k) Miscellaneous

The production capacity of Mexico's industrial machinery industry, which includes vehicles, has benefited to some extent by the experience gained during the war, and also due to the fact that she entered the post war period with greatly improved mechanical facilities.

It is questionable however, whether the production rate of any industry is comparable to that of similar Canadian or United States plants, as numerous industries do not follow fixed assembly line technics, and shift manufacturing emphasis from one product to another due to material shortages and labour troubles. As a result, the calculation of productive capacity for any one group of industry is somewhat difficult.

Mexico's exports of industrial equipment are negligible, and liable to remain so due to inefficient production methods and the 15% tax on all exports. While the demand for industrial equipment continues to be high, Mexico does not rely on its own industry to fill her requirements, but turns to the United States for its supplies. The ability of Mexican industrial industry to meet domestic requirements, will depend on the availability of technical knowhow for the preparation of engineering studies, the manufacturing knowhow, the provision of more power, railroad trackage and roads. In addition, Mexico is still poor in capital, and the low living standards and absence of saving habits makes capital accumulation a slow process. Therefore, the State itself is required to put up a large portion of the money necessary for industrial development of national interest, or at least to underwrite the risks. The result, of course, has been for the Mexican National Government in common with most other Latin American countries, to look for financial aid from the United States of America to help overcome foreign exchange problems, and to enable the country to industrialize to the fullest extent.

5. TRANSPORT & COMMUNICATIONS

(a) Railways

In 1947 there were 23,500 kilometers of railway in operation with 1100 standard gauge locomotives and 175 narrow gauge. The number of freight cars in use on standard gauge were 15,000, and the number of freight cars on narrow gauge were 25,000. Passenger coaches for standard gauge total 700, and for narrow gauge 100. The total number of passengers carried by the Mexican National Railways in 1947 only amounted to 30,000,000. In general, much of the railway facilities in Mexico, including track, motive power and rolling stock are antiquated; inefficient, and poorly operated. However, some sections of the Mexican railway system, mainly the key routes from United States to Mexico City, and on to the Guatemalan border, have had considerable maintenance work done on them, and some new rolling stock, box and tank cars, steam and diesel locomotives, which were purchased during the war are in service on these sections. It is estimated, however, that the country still needs 15,000 to 20,000 kilometers of new railway track quite apart from the requirements for new equipment. However, whether or not this equipment will be forthcoming depends entirely on whether or not the necessary finances can be arranged, as in common with other nationally controlled activities, the railways at the present time are bankrupt and owe large sums of money to the Government which, as previously explained, is already embarrassed in its finances.

Furthermore, the ordinary operating expenses on the National Railway are 111% of the total gross income of the railways, chiefly brought about by the exhorbitant wages and the fact that they are grossly over staffed by demands of the unions.

(b) Ports

Mexican seaports are mostly in poor condition and the merchant marine is almost non existant. The Mexican Government, realizing the need of having proper port facilities, has been working on a programme of improvement estimated to cost many millions of dollars (United States). For this purpose, the Mexican Government has obtained the services of General Royal B. Lord, United States Army, former chief of staff of General Eisenhower, and in whose charge some of the engineering works required for the invasion of Europe were carried out. General Lord, who recently arrived in Mexico, said that prior to his arrival, that American technicians had already been in Mexico for some months making necessary preliminary studies, and that he is now going over their reports before making official suggestions and recommendations to the Mexican officials.

(c) Highways

In 1947 there were some 20,000 kilometers of highway in Mexico, half of which were paved. From Nuveo Laredo through Monterrey to Mexico City, route No. 1 of the National Highways of Mexico, links with the Inter-American Highways from Texas to Panama City. Other paved highways run from Vera Cruz through Mexico City to Guadalajara Tepic, and from Tepic along the Pacific coast, to the Texas border at Nogales. Another paved highway runs from Guanajuato through Durango and Chihuahua, to El Paso. Many smaller inter urban highways exist, and there has been a rapid growth of bus and truck operation. Mexico is well supplied with materials to build her roads, using domestic cement and asphalt.

(d) Airways

Several international airlines operate in and out of Mexico City, and the airport is well equipped with runways and modern control equipment. There are also numerous local services, some of which are under the control of American companies.

While there is a great deal of traffic in and out of the airport each day, most of the passenger service is on the international circuits, the local services being mostly confined to freight traffic.

6. SOCIAL QUESTIONS

Wretched living conditions, lack of proper water and sanitation, and the high percentage of malnutrition and disease amongst the majority of the population, have contributed toward the growth of communism in the country. Furthermore, unionism has made great strides in recent years, and is organized by leaders who are both radical and irresponsible in their views and demands, and, because of the low standard of education amongst the workers their influence is very strong. Trade unions in Mexico have always been closely associated with politics, therefore, whenever a dispute comes up between the unions and manufacturers, and it is referred to the labour courts, the decision is invariably given to the unions.

Nevertheless, many Mexican industries have realized that labour is inefficient when poorly fed, clothed and housed, and that the amount of physical energy that a man can expend under these conditions is extremely limited. To this end, therefore, they have established large canteens and social service centres where employees at least can have one good meal a day, a bath, and some organized recreation. In one instance, one organization has gone so far as to not only provide free meals in its cafeteria, but in addition, it provides free housing, free schooling for children and classes in how to live and dress decently.

It might be of some interest to mention here that the particular company in question known, as the Distribuidora Nacional Mexicana S.A. is owned by Antonio Luiz Galindo, who, at the present time is Minister of National Economy in the Mexican Government. The plant which manufactures office furniture has a model city attached to it, and the cost of this construction alone has run into many millions. Needless to say, most of the outlay has been subsidized by the Government.

Mexican standards of living and education amongst the workers are serious limitations to expansion of technical production, as well as to consumer market requirements. Industrial development requires skilled workers, and men with specialized skills are almost impossible to find. In the past it has been considered economical to employ a large number of workmen at a low daily wage, but this policy has had to be reviewed with the introduction of machinery and industrial equipment into Mexican industry. In spite of this, however, the average daily pay for the Mexican workman does not exceed six pesos per day. Furthermore, even today statistics show that out of the total population of 25,000,000 in Mexico, some 12,000,000 people still do not wear any shoes, and more than 6,000,000 cannot read and write.

It is quite apparent, therefore, that industry and consumers demand in Mexico will materialize only through a basic improvement in the people themselves. Improved standards of living, better consumption of essential food stuffs, and better housing, are only a few of the important things that have to be considered. One very important item in Mexico is the problem of water supply, and the whole country faces a serious shortage of water, more especially in Mexico City itself. It is interesting to note that when Cortez captured Mexico City he did it by an amphibious operation, the site of the city at that time being completely surrounded by water. This water has been drained off during the ensuing years, and each and every year the water table lowers and the surrounding country becomes more and more barren. This in itself explains the need for the irrigation schemes mentioned earlier. Furthermore, one must remember that Mexico City in some 6,500 feet above sea level and this makes the problem of water supply even more difficult. Some indication of the state of affairs that exist are shown by figures recently published for the City of Monterrey. In this City it is estimated that only 80% of the people have water supply, and 40% sanitation. Elsewhere conditions are worse than this.

7. COMPETITIVE SITUATION

For geographic reasons, and because of the very extensive penetration over a long period of years, accompanied by generous loans earmarked for American products, the United States has a commanding situation in Mexico.

In fact, her penetration is so strong that she controls in the vicinity of 85% of a total import trade in Mexico. It is true that the Canadian Mexican reciprocal trade has increased from 14,000,000 pesos in 1939 to 160,000,000 pesos for the first six months of 1948, but this is still a relatively small proportion of Mexico's foreign trade. This is a question of United States policy for a country which adjoins it on a very wide border, and whether the United States likes it or not, it is obligatory that she keep a reasonably cooperative Mexico at all times. This was very well borne out during the war when fantastic prices were paid for Mexican materials, which otherwise might have gone to the German and Japanese Government. While some Americans may have expressed their feeling of frustration in Mexico as being unable to cope with the ludicrous demands often made on the United States Government, it should be noted that at least 90% of the economy of Mexico has been developed by United States loans, machinery and knowhow.

Incidently, it is significant that the United States is the only Government that encourages loans or manufacturing plants from its own country. The Mexican Constitution clearly states that if it is to the benefit of the Mexican Government, they can at any time take over any operation, business or organization, where it is considered necessary for the betterment of the Mexican people. The question of compensation appears to be a very secondly matter.

8. TARIFF CHANGES AND TRADE AGREEMENTS

Mexico at the present time has two trade agreements in force - the U.S.A. - Mexican bilateral trade agreement, of which a copy is available in the Commercial Relations Division in Ottawa, and the Canadian - Mexican most-favoured-nation agreement - which was signed on February 6th, 1946, by the Hon. James A. McKinnon, Ambassador H.L. Keenleyside, and representatives of the Mexican Government. Mexico has a single column tariff, and on the face of it, it would appear that there is no particular advantage in having trade agreements with this country. Nevertheless, there are, certain indirect advantages, inasmuch as many Embassies and Legations in Mexico have often asked us why we have such an easy and excellent entre to the Mexican Government at all times, whereas they have had great difficulty in endeavouring to advance their commercial interests in this country. Also some consideration should be taken into account that Canada has, within reason, endeavoured to act bi-laterally with Mexico despite our multilateral principles. This policy has been necessary owing to the fact that the Mexicans at all times are extremely sensitive to their balance of payments position with every country, and Canada is one of the few countries with which she has a small favourable balance.

As regards tariffs, owing to the difficulties of maintaining the peso, the Mexican Government in the latter part of 1947, and the early part of 1948, imposed highly increased tariffs on wide ranges of imported goods, in addition to establishing a list of goods which are completely prohibited. This was nominally for the purpose of correcting her international balance of payments position, but, in many cases it was used as a protective tariff for many small Mexican industries. This situation was a source of very grave concern to the American Government when it came to a discussion of their revision of the bilateral agreement with Mexico, and in fact, it reached an impasse for the reason that

Mexican officials insisted not only on the maintenance of these very high tariffs, but also demanded at the same time a downward revision of the United States tariffs on many Mexican products. Within the past two months there was a real possibility of this trade agreement being denounced, but reconsideration is going forward at the present time by the Mexican and United States committees appointed by their governments to re-examine the agreement.

9. REPRESENTATION AND CREDIT FACILITIES

There has been a remarkable increase in Canadian representation in Mexico. As of September 1945, there were approximately 75 Canadian agencies in force after a trade office had been maintained in Mexico for some 25 years. At the present time, the number of Canadian agencies is in the vicinity of 400.

With regard to credit facilities, practically all Mexican business should be done on certified letter of credit basis, although as trade eases off, and as the United States and Great Britain offer easier terms, it may be necessary in the future to allow 30, 60 or 90 days credit. It is far better, however, for Canadian firms if at all possible, to at least demand cash against documents.

In discussion of branch industries in Mexico both Mr. Cole and Mr. Millyard were strongly adverse to Canadian companies locatin plants in Mexico, particularly if considerable quantities of capital are involved. It should be understood, however, that this is quite different from the installation of a small assembl plant to evade tariffs, particularly where this does not involve heavy capital, and simply some inexpensive machinery.

10. CONCLUSION

While there has been a remarkable increase in Canadian representation in Mexico, one cannot overlook the fact that the United States of America and also the United Kingdom are both very strongly entrenched in the country, and as these countries offer easier terms, it may be necessary in the future for Canada to consider better credit facilities.

In the matter of Branch industries, I do not believe that Canadian companies should consider locating plants in Mexico, particularly if considerable quantities of capital are involved. As mentioned previously there is still a clause in the Constitution of Mexico whereby the Government can take over private business at any time, and several years ago the Mexican Tramways, a Canadian company, was summarily confiscated by the Government, and is now being run as a Nationalized Transportatio Company. Similarly, the American and British oil interests were taken over at an earlier date, however, despite this clause, a good deal of American capital has come into the country to be invested in industry, and this trend is continuing. So, it seem likely that the United States companies must have received stron verbal assurance from high Government officials, that they need not worry about confiscation, nevertheless, the risk remains.

New enterprises are tax free from five to ten years and their raw materials are also to be duty free, but this concession is not automatic, and each application is considered on its own merits. The Mexican Government through its policy of high duties on foreign made articles, is doing everything it can to protect and promote manufacturing within the country, and they are perfectly willing to consider the importance of semi finished products. As a rule, they will allow the foreign made product to be completed up to 50%, but naturally prefer to have the bulk of the work done in Mexico, if possible. Also, where a new unit is set up in an established industrial field, it will receive similar consideration providing it introduces radically new processes. All foreign business being set up in Mexico must have the minimum of 51% Mexican ownership, Canadian companies might, however, consider installation of small assembly plants to evade tariffs particularly where this does not involve heavy capital, and simply more inexpensive machinery.

In conclusion, I would like to emphasize the valuable assistance that is available for the asking from our Trade Commissioners in the field. In Mexico, Mr. Douglas Cole and Mr. Wiley Millyard are not only well versed with the problems common to Mexico, but they also enjoy the confidence and respect of the Mexican National Government, as well as that of private enterprises. I am very much indebted to both these gentlemen for the help they gave me while in Mexico, as well as for the material they provided me with for the preparation of this report.

(sgd.) Edward C. Thorne.

E.C. Thorne.

COLOMBIA

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REPORT ON

ECONOMIC AND COMMERCIAL CONDITIONS

BY

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FOREIGN TRADE SERVICE

DEPARTMENT OF TRADE & COMMERCE

OTTAWA, ONTARIO.

INDEX

COLOMBIA

1. GENERAL CONDITIONS

Colombia has an area of 439,714 sq miles, and the present population of the country according to the latest statistics is 9,882,860, comprising 68% Mestizo, 20% White, 7% Indian, and 5% Negro racial stock.

In the New World that Christopher Colombus discovered, Colombia is the only country that bears his name. The actual discovery and exploration of the region in which Colombia lies was undertaken by some of Colombus's companions or contemporaries. Santa Marta was founded in 1525 and Cartagena in 1533. These two places were to become two of the most ancient and important centres of things Spanish in South America, as twice a year stately Galleons arrived bringing fresh colonists, and laden with products of the Old World.

The romantic history of Colombia tells of the Chicha and Kimbaya civilization which fell before the Spaniards. The unparrallelled expedition of Jimenez de Quesada who founded what was to be the capital of the country, Santa Fe de Bogota. The Holy Inquisition of Cartagena, and the great revolutionary movement, which under Bolivar, Nareno, Santander and their companions swept the country and culminated in the Independence of Colombia.

Colombia gained its independence from Spain in 1819. Simon Bolivar, attempting to work out his ideas of democracy, founded the Republic of Gran Colombia, composed of Ecuador, Venezuela, Panama, and Colombia, with its capital at Cucuta, but this broke up in 1831. Revolt flamed in 1887, and was not brought under control until 1902. In 1904 Rafael Regis, as President, initiated a long range programme for the development of the Nation. Since this date there has been continued growth and stability, with steady development of the potentialities of the country.

Formidable terrain has hindered development of rich natural resources, and has made Colombia in the field of air transportatio Before the days of aviation, the journey from Bogota to the Caribbean involved a two week trip down the Magdalena River. Today, bales of cotton and even machinery are flown into Bogota.

Through the western half of Colombia, three great Andes ranges run north and south merging at the Ecuadorian border. These ranges are known as the Cordillera Occidental which runs parallel to the Pacific Coast rising to 11,850 feet, the Cordillera Central which rises to 18,423 feet at the lofty snow capped peak "TOLIMA", and the Cordillera Oriental which includes the loftiest peak of all, the snow capped peak of "HUILA" which rises to a height of 19,309 feet.

Along the north coast, wet tropical lowlands lie in rough triangle between the Pacific and Caribbean sea. Over half the area of Colombia consists of the vast eastern tropical lowlands, which in the northern section is drained by the Orinoco, and in the south by tributaries of the Amazon. The latter region being dense tropical jungle.

The Magdalena River which lays between the Cordillera Oriental and the Cordillera Central ranges is more than one thousand miles long, and is navigable for a considerable distance. In fact before the days of air transportation, this was the Nation's chief transportation route. Even today a considerable tonnage of cargo is carried up and down the Magdalena River, and the contrast between the old stern wheel river boats, and modern cargo carrying plane is very striking.

The Gauca River which lays between the Cordillera Central and the Cordillera Occidental joins the Magdalena River some two hundred miles from its mouth, and is navigable in broken sections only.

The Colombian Government consists of an Executive who is the President, and ten Cabinet Ministers. A National Economic Council of five Ministers and representatives of banking, commerce, and agriculture has been functioning since 1935. Legislative power is vested in a Senate and House of Representatives. The Government has entered into various fields of business, almost all the railroads are owned and operated by the Government, and a programme for the nationalization of communications services has now been carried out. Salt mines are a Government monopoly, but alcoholic beverages, which was formerly a State monopoly, are now in the hands of the provinces. Rubber, Platinum and Emeralds are all Government monopolies.

In the cities the Government is sponsoring construction of low cost homes, and industrial development in these areas has brought about a higher degree of purchasing power than in rural communities. Trade Unions are recognized provided they register with, and submit, periodic accounts to the National Labour Department of the Ministry of Labour Health & Social Welfare. Normal working hours in Colombia follow the principle of eight hour day, forty eight hour week, with workmen's compensation and group insurance.

2. FINANCE

(a) National Finances

Colombia's national debt, totalling some 450,000,000 pesos is in fairly good relationship with the country's economy and its government revenue. The Government's annual revenues have been steadily increasing, accompanied by inflationary trends, and rapid development of industry to the tune of some three hundred millions pesos, annually. An important source of revenue in the past has been the customs duties collected on imports, but this is becoming a less important factor relatively with the rise of income and Corporation taxes collected.

Due to the recent restrictions on imports, caused by foreign exchange difficulties, this part of the country's revenue has attracted increasing attention from the government, and the intention of revising the customs rates upwards, has already been expressed by the government. However, before this can be made effective, it will require bilateral action with the United States of America due to the fact that the great majority of the more important items are included in the USA-Colombia Trade Treaty of 1935. However, preliminary notes have been exchanged between the governments concerning this matter.

Two of the most important items of expenditure in the Colombian budget are for roads and other public works, and for the Ministry of War. Colombia has been spending roughly one quarter of its total revenue for road construction, maintenance, bridge building etc, and this is one of the essential requirements for Colombia, as at the present time most of the important centres are isolated from each other, except for air communication. There is a plentiful supply of materials for road building available in the country, but progress in the road building programme has been delayed to some extent due to the necessity for having to import a considerable volume of road machinery.

The Ministry of War budget has jumped from an insignificant sum to one fifth of the total budget during the past year, this of course was entirely due to the serious political disturbance which

blew up on 9th April 1948 with the assassination of the Liberal party leader Dr. Jorge Gaitan, and which also took place during the Pan American Conference which was being held in Bogota at that particular time.

The Colombian Government has made some effort to control the mounting tide of inflation, by restricting the credit facilities and extensions of loans by the commercial banks. This has resulted in a check being put on the building boom, which had become one of the biggest reconstruction programmes throughout the country since the end of World War II. Unfortunately however, the position of the government has not been sufficiently strong politically to permit it to curtail such bank loans to the extent, where inflation and rising costs of living have been affected.

(b) Public Debt

Colombia's national internal debt amounts to 285,000,000 pesos, and the external debt to 165,000,000 pesos. The servicing of this external debt in U.S. dollars has been properly attented to for almost fifteen years, and Colombia's debt repudiations abroad have been singularly low for a Latin American country. However, due to the rapid industrial development of the country in the past ten years, there is certain to be an increase in the country's indebtedness abroad, particularly for such projects as hydro electric developments, and the proposed government steel mill, to be known as Siderugica Paz del Rio. Thus far only the Export Import Bank has loaned money to government and semi official entities since the end of the war, but the amounts have been very small, and principally to finance municipally or state owned hydro power installations.

As long as the present attitude of Latin American countries such as Colombia regarding loans from abroad remains as it is there appears to be very little possibility of Canadian industry supplying heavy installations for public utilities. Therefore, as long as it is possible for Colombia to borrow money from the Export Import Bank at interest rates between 3½% and 4% there is no way of getting this big business without offering comparable financing to that of the Export Import Bank. This condition of course is identical to that found in Mexico.

It is somewhat difficult therefore, to hazard a guess as to how long these facilities will be available to these Latin American countries, or to suggest any definite course of action in this direction. If for any reason there is to be a shake down commercially and financially, and this may only be the outcome of a widespread depression, the position may clarify itself. Even now the foreign exchange value of the Colombian peso is under considerable pressure and it is not unlikely that a devaluation will occur before very long.

(Note: Since writing this report a devaluation has taken place.)

(c) Exchange & International Balance of Payments

Colombia ended the wartime period of scarcity of foreign goods with a very comfortable margin of reserves of gold and foreign exchange. Accordingly, the financial officials concerned with such matters were confident that these reserves would be adequate to

support, not only commercial buying on a large scale, which had been delayed by wartime scarcity, but also a considerable industrial expansion at the same time. In common with other countries in the world, except the United States, events have proven this attitude to be wrong, primarily because of the world wide inflation resulting in the buying power of the dollar, and all other currencies being steadily reduced after the lifting of price controls.

Due to restrictive import measures having been taken by the Colombian authorities concerned with the balance of international payments, beginning with the spring of 1947, there has been achieved an important slow down of the rate of diminution of these reserves. After the April 9th, 1948 political disturbances, even more restrictive measures were enforced which has aroused criticism on practically all sides.

However, the level of gold and foreign exchange reserves has been more or less stabilized over the past few months, and this has been partly achieved by a delay in approving remittances of U.S. funds abroad for shipments made many months ago. If all these pending remittances were allowed to go forward at short notice, it is doubtful that the country's reserves would remain at present levels.

Coffee is the leading factor on the receipt side of Colombia's international balance of payments, supplemented by capital brought into the country by the foreign owned petroleum companies. Bananas used to be important, but they were wiped out by disease during the war, however, they are now making a recovery.

On the disbursement side of the balance of payments, consumer goods (particularly textiles) used to be the leading items, then during the immediate post war period machinery and industrial equipment became the leading items. Quite recently the lead is changing to industrial raw materials with raw cotton being the most important.

3. PRIMARY AGRICULTURE PRODUCTION

Colombia is essentially an agricultural country, although only about one sixth of its area is suitable for farming. The Government takes active part in promoting the cultivation of sugar, cotton, rice, and also in modernizing agricultural techniques, as an overall policy of reducing imports of products now growing in Colombia.

This points up to the fact that agriculture has not kept pace with Colombia's industrial development, since raw cotton can be and is grown in the country, but only up to about 20% of the requirements of the domestic market. Also, some rice, cocoa, wheat, and occasionally sugar are imported to supplement local production.

The Government is fully aware of this problem, and is also cognizant of the fact that there are ideal conditions in various parts of the country for all these crops. It is therefore, going to stimulate agricultural production in all ways possible. The methods of going about this will include permits for large imports of agricultural machinery, tools and equipment, while cutting down on the importation of additional industrial machinery by means of the exchange and import licence system of quotas (or cupos), allotted to individual importers and industries.

Colombian coffee, by far the principal crop at the present time, i a mild variety that does not compare with Brazilian types. Since some 62% of Colombia's exports are made up from Coffee, this makes the Nation virtually a one crop country.

Rubber is grown in the eastern region, and collection of wild rubber is now under way. Seedlings have also been started. Sugar is grown chiefly on small farms in the Cauca Valley. Tobacco also grows in Colombia, the climate being favourable for the cultivatio of a high grade variety. Production takes care of domestic requirements.

Tropical fruits are available in plentiful supply, and some vegetables are grown but not in very large quantities. One of Colombia's greatest activities is that of Orchid growing, and she has a flourishing business in this field, which is stimulated by swift plane deliveries to other countries.

4. MANUFACTURING INDUSTRIES, CONSTRUCTION & SECONDARY INDUSTRIES

Colombian industry is largely concentrated on the manufacture of consumer goods. Although industry is expanding, few manufactured products are exported. Heavy machinery, metal manufactures, chemical products, transport materials, and vehicles are imports vital to the development of domestic industry.

Owing to the topographical conditions in Colombia, each of the main cities operate more or less independently, and this is borne out to some extent by statistics published by the Banco de la Republica, which show that in fourteen provinces, thirteen of then are producing textiles, all of them food, beverages, and power.

Under the circumstances therefore, it would probably be best to examine Colombia's industries by cities, rather than by industrie as this will give a clearer picture of how industry is decentralized in this country.

(a) Bogota

Bogota, capital of the Republic was founded in 1538. It is locate in the mountains of the Corddillera Central Range at a height of some nine thousand feet above sea level. In 1947 the population Bogota was 330,312 inhabitants.

Bogota has a wide variety of industries including, cotton, weavin brewery, tire manufacture, shoe factory, pharmaceutical laboratories, powdered milk plant, foundry, steel fabricating shop, larg tannery, and a furniture factory. In addition the section of the Ferrocarriles Nacional (National Railway) that operates in this area, has railway maintenance shops.

The Bogota Brewery of the Bavaria Fabrica de Cerveza is the largest in Colombia, and one of a chain of breweries belonging to the same organization which operate in other cities. The capital of the Bavaria de Cerveza is said to be in the neighbourhood of one hundred million dollars U.S., and is the largest industrial organization in the country. It is also the oldest and therefore, somewhat antiquated. However, a big reconstruction programme is under way, and a sum of fifty million dollars is to be spent on expansion and new plants. Part of this programme is to be Government sponsored with a view to stamping out the sale of Chicha, which is a potent rot gut presently drunk by the native Colombians, by replacing it with cheap beer.

Bogota's electric supply comes from the hydro plants of the Empresas Unidas de Energia Electrica at Salto and Charquita. Thes two plants are approximately twenty miles away from the city, and develop 33,000 Kva and 37,500 Kva respectively. The Salto plant, now running with three 12,500 Kva units, is adding two more 12,500 Kva units which will bring the total capacity of the plant up to 62,500 Kva. The plant is modern in every respect, comparable to anything we have in Canada, the only difference being that the head of water is 1,250 feet, which is high by our standards.

The Charquita plant is divided into two sections, one section generating 16,500 Kva by hydro when water is available, which is about eight months in the year, and the other section generates 16,500 Kva by a thermal installation comprising two steam turbo generating units. The hydro section of the plant is somewhat antiquated as it consists of six or seven old horizontal type units which were made in Germany in 1900 A.D. One of the unusual features to be incorporated in the new construction now under way is a reservoir which will be filled by pumping water up into it from the river during off peak load periods, when surplus water is available, and used later during low water periods. Most of the industries in Bogota have their own sources of supply in the form of diesel electric plants.

(b) Medellin

Medellin is the capital of the Province of Antioquia, and was founded in 1616. It is reached from the Magdalena River at Puerto Barrio by railway, or by air. Population in 1947 was 220,790 inhabitants.

The principal industry of Medellin is that of textiles having the largest mills in the country processing cotton, wool and rayon materials. The Cotton Textile Mills of the Fabrica de Hilado y Tejidos del Helos is one of the most important plants in Medellin. Here spinning and weaving of cotton is done on a big scale, and many types of cloth are made in this plant. Materials are finished with fancy designs printed both by roller type printing machines as well as silk screen finishing. This plant together with the majority of the other textile mills is owned by an old established family which is one of the most important in Medellin, and a leader of industry in that city.

Associated with and under the supervision of the same family is the Fabrica de Medellin Fatesa, a modern plant manufacturing Nylon stockings, the Compania Nacional des Tejidos with the trade name CONALTE, a rayon knitting mill and underwear factory, the Compania Colombia de Rayon a new modern plant for the production of rayon fiber, and SEDECO which is alongside the fiber plant and is another large rayon knitting mill. This industry is second only to the brewery industry.

Most plants in Medellin operate by individually owned diesel electric plants, electric power supply from municipal sources is almost non existant. However, the Empresa de Energia Electrica de Medellin is presently constructing new hydro power plants in the vicinity of Medellin, which will ultimately solve some of the power shortage problems, however, complete freedom of supply will not be available from these sources for some years to come due to the magnitude of the development. In this respect it is not the size of the development, but the problems of construction and design brought about by the terrain conditions.

At the present time, only one power plant is in operation at a place called Guadalupe. The capacity of this plant is 45,000 Kva and the equipment consists of horizontal Pelton water wheels operating under a head of 18,000 feet. The first stages of expansion call for the installation of another unit of 15,000 Kva which will bring up the total capacity to 60,000 Kva. Work on this project was well in hand at the time I visited the plant, and it was expected they would be able to put the new unit on the system by the end of 1948.

A far bigger operation, however, is under way on the Rio Grande River which will ultimately develop 250,000 Kva. This project comprises four stages of power plants as follows:

No. 1 Plant	Mocorongo	75,000 Kva
No. 2 Plant	De Azucar	50,000 Kva
No. 3 Plant	El Mango	75,000 Kva
No. 4 Plant	La Cristalina	50,000 Kva

The construction of the Mocorongo plant has been started, but it is a major operation involving a large storage dam, silting tanks and some miles of tunnels for pipe line. It is located high up in the mountains, was quite isolated from civilization until special roads were built to get equipment to the site. At the time of my visit most of the roads had been completed, and tunnel drilling was just finishing up. Steel lining was arriving for the tunnels, and most of the concrete work on the sluice ways, dam, and spillway was finished.

The site of the project is well up in the mountains on the other side of the range from Medellin. Equipment for the plant comes up the River Magadalena to Puerto Berrio, is transferred to the railway where it is taken to a place called Barbosa, from Barbosa it is placed on twenty ton diesel tractor trailers and hauled over the mountain pass to Mocorongo. The road is narrow and has frequent blind turns, it is comparatively new and therefore, soft and almost unusable after heavy rains. Nevertheless, a fleet of Mack trucks with war surplus tank transporters grind their way back and forth whenever possible and it would only take one false move or failure of the road bed in many places, to send these trucks hurtling down the mountain side some thousands of feet into the valley below.

Another three years is expected to elapse before the Mocorongo plant is ready to come into operation. The remaining plants will not be started until all the work on the first part of the project is completed. Each successive plant is dependent upon the other for its source of water intake, and one of the first stages of construction for No. 2 plant will be diversion tunnels for the tail race waters of No. 1 plant.

Amongst the smaller industries in Medellin we find aluminum pot spinning plants, potteries, railway maintenance shops, zipper factory, and cigarette manufacturing. Medellin also has a school of mines operated by the State Government of Antioquia. A small steel processing plant is also in operation and this plant rolls reinforcing rods from steel made from scrap. Medellin is a fair sized city which has progressed very well during the past few years. There are many new buildings and a number in the early stages of erection. The Hotel Nutibara recently completed, is ultra modern in design and quite well run.

(c) Cali

Cali is the capital of the Province of Valle. It was founded in 1536 and its population at the present time is in the neighbourhood of 135,000 inhabitants. Railroads connect with Buenaventura and Manizales, and there are highway connections with Medellin and Bogota, although they are extremely poor and only usable at certa times of the year.

Cali is also an important industrial center, its chief industries being sugar, cement, and textiles. A fairly large hat industry is operating and the factory of Tedesco Hermanos S.A. is expanding to include production of felt and felt hat forms. The machinery for this operation has been imported from Italy and is being installed by Italian technicians from the Argentine. It is all second hand machinery, although it is claimed to be the best equipment available for making velour hats. It might be as well to mention here that hats in Colombia are very important and almost everybody in the country wears one.

Asbestos cement products are manufactured by Eternit, an organization which operates throughout South America. Cottons were being manufactured by Carton de Colombia S.A. and some pulp was being made from bamboo at this plant. A shoe factory known as the Fabrica de Calzado Pacifico makes a good class custom built shoe both for men and women, and this firm has been advised that it must be prepared to make a cheaper grade shoe to meet the demands resulting from a recent order issued by the Colombian Government to the effect that "all employers must provide their employees with two pairs of shoes a year".

The textile mills of Garces Giraldo Hermanos are second only to those found in Medellin and Bogota. Much of the textile plant is fairly old, but large quantities of woven cotton materials are made including bedspreads, awning and canvas chair cloth, material for shoes and table cloths. New additions were being made to the spinning rooms, which will considerably increase their production. In addition to the foregoing the same owners operate a number of local industries including a large chemical laboratory producing a large range of pharmaceuticals and drugs, toilet articles and insecticides. A sugar mill and alcohol distilling plant, and a cattle ranch with some 1200 head of special cattle known as Cebu.

The plant of the Croydon de Pacifico produces a wide range of rubber goods including rubber for shoe fabrication, rubber boots, rubber soled shoes, raincoats and rubber floor tiles. This company is a subsidiary of the Croydon Rubber Company.

(d) Barranquilla

Barranquilla is the capital of the Province of Atlantico and was founded in 1629. It has a population of approximately 183,500 and is located on the Magdalena River about eleven miles from the sea. Formerly the chief port of Colombia, it is capable of handling 10,000 ton cargo ships, it also is the port for river steamers navigating up and down the Magdalena River. A combination of river steamer and train connects with Bogota.

Barranquilla besides being an important seaport also has a number of industries. These include textile mills, aluminum rolling mill, plastic moulding plant, enamelware plant, nail factory, can making plant and tableware factory. In addition a large vegetable oil plant known as Fagrave manufactures shortening and a variety of vegetable oils from local nuts. A shipbuilding and ship repair yard builds steel barges and diesel tug boats, and repairs the old stern wheel paddle steamers. Barranquilla also has an Eternit factory manufacturing asbestos cement products and a new cement factory is in the process of construction. Barranquilla is also important as the junction of almost all the international air lines that operate in South America.

(e) Buenaventura

Buenaventura has developed into an important port in Colombia since the war. It lies on an island in a bay near the center of Colombia's Pacific coast. It is almost entirely a shipping center, and has both railway and road connections with Cali, although in common with most of Colombian roads they are in very good condition.

(f) Cartagena

Cartagena is the capital of the Province of Bolivar and was founded in 1533. It is another important port and lies on the Caribbean coast some 80 miles southwest of Barranquilla. The port has good shipping facilities for merchandize, and it is also the outlet for oil which is piped in from the Tropical Oil Fields at Barranca Bermeja. A highway connects with Barranquilla and the railway connects with Calamar on the Magdalena River. It is also a tourist center with many historical buildings, and has a fairly good beach and reasonably good hotel accommodation.

(g) Barranca Bermeja

Barranca Bermeja is the location of the Tropical Oil Company's refinery and oilwells. Barranca Bermeja is 100% Tropical Oil Company, having a population of some 12,000 persons, all of whom directly or indirectly depend upon Tropical Oil for their living.

Barranca Bermeja does not have a very elaborate airport although Avianca have a regular service in and out, it being on the main Barranquilla-Bogota circuit. Imperial Oil also have their own planes using the same landing strip. All traffic in and out of Barranca Bermeja is connected with the company.

The Tropical Oil Company is divided into two camps - the Barranca section and the "El Centro" section, the former being the refinery and pipe line operation, the latter the oil field, and some considerable distance away.

At Barranca there is quite a large colony of Canadians. We were, therefore, much sought after to hear the latest news from home. This was very nicely arranged by Mr. W. Welch who assembled everybody together at the Club House where we were introduced all around. On the following day we went over to the "El Centro" camp where it is predominantly American, but with a few Canadians in spite of this. Here we met the entire force at an informal lunch at the Golf Club House.

Tropical Oil is a big organization with wells producing something like 30,000 barrels a day. The refinery produces gasoline and a full range of "Essolube" oils and greases. A recent addition to the refinery had been installed by Foster Wheeler, St. Catherines, Ontario. This was the only piece of Canadian equipment I saw. However, the Commissary bought Canadian foodstuffs in a big way and everyone wanted to know if Canadian beer could be obtained - not in bottles but in cans. Possibly the aluminum barrels would be able to be shipped which are not uncommon to the brewery industry in Canada today. When the supplies for a family of some twelve thousand people are involved, it is a big business. Another mentioned shortage was butter and milk powder, especially the latter.

The situation of Tropical Oil is uncertain. A big strike had just been averted; in fact, troops were still quartered around the refinery and a full blown "General" with all his staff were staying at the same guest house as we were.

The present contract with the Colombian government expires in 1951 and no one can hazard a guess as to whether or not the company will be given a new contract. Until 1951, therefore, very little will be done in the way of expansion and renewal of equipment. However, should everything go well, there will be a big programme of reconditioning which will include light gauge railway locomotives, freight cars, new machine shop, tug boats, barges, etc., etc., some of which would be of great interest to Canada.

Barranca is well in the middle of jungle-like country and very hot and humid. A wide variety of tropical birds fly around making a great racket, and off the company roads the surrounding swamps are well stocked with alligators, wild pigs and assorted snakes.

5. TRANSPORTATION AND COMMUNICATIONS

The nationally controlled activities, principally the national railroads, are in a poor state of repair and financially their position has been deteriorating in much the same way (but to a worse degree) as the railroads in Canada. There are three short lines of railroad that are not nationally owned, two being privately and one being state owned.

However, none of these various railway lines permit direct communication between Bogota and either the Atlantic or the Pacific sea coast. Between Barranquilla on the Atlantic and the vicinity of Bogota where the railroad starts, it is only possible to transport freight through this low lying swampy jungle-covered country by means of the Magdalena River, which has always been the main backbone of transportation arrangements in this country. This has been the country's great weakness economically, and has delayed its progress commercially and industrially until the advent of the airplane, and the opening of a new and modern port on the Pacific at Buenaventura. However, even this latter development is still not able to completely fill the additional transportation needs of the country, and will not do so for some 40 to 50 years as far as the most easternly plateau area where Bogota is located is concerned.

It will, however, benefit the new and very rapidly growing commercial center and industrial city of Cali in southwestern Colombia. It also improves freight facilities to Medellin offering an alternative route but a more expensive one. Inland freight from either sea coast to Bogota or Medellin, the leading cities of the country, costs a minimum of 100 pesos per ton, which is considerably higher than the ocean freight on the same goods from any foreign port in Europe to the Western Hemisphere.

Bogota is still very effectively cut off by land from Buenaventura, Cali and Medellin by the Central Cordillera, which is a mountain range extending without a break from the Ecuadorian border north to Medellin, from where it turns northwestwards towards Panama. The only means of crossing this barrier is by two narrow earth-surface roads, one of which joins the end of a railway to Bogota with the end of a railway to Cali and Buenaventura, which has connections with the Antioquia railroad running northwards to Medellin. Freight has always been handled very roughly, not only by the stevedores unloading the ships at the ocean ports, but also on its long journey inland involving several off-loadings and reloadings en route because of the mountainous terrain referred to above.

It is, therefore, most unfortunate that Colombia's customs tariff schedule is based on gross weight rates, thereby necessitating economy on packaging materials and leaving merchandise more vulnerable to the rough handling and the pilferage which cause a regular 10 to 30% loss on all consumer type goods. Another serious difficulty causing congestion of freight periodically at the port of Buenaventura, is the fact that the railway joining that port with Cali is a single track road running through very difficult gorges, where landslides are very frequently encountered during several months of the year, principally October and November, April and May.

There is some serious talk of improving this railroad and making it a double track, or alternatively building a separate right of way by another route. However, the railroads are not financially able to undertake even this limited improvement without a shot in the arm financially. For this reason the national railroads have been trying for some time to get a loan from the Export Import Bank of the U.S.A., but so far unsuccessfully. Another very necessary project is communication by road and later by railroad between Medellin and Cartagena, but only the initial work of building the road has been begun as yet.

6. SOCIAL QUESTIONS

Bringing a country from a semi-feudal agricultural system to a combined agricultural and industrial nation in about 15 years has inevitably brought social problems. The farm worker still gets only about Ps. 1.00 per day pay and a little land on which to build a shack for a home while industrial workers get Ps. 4.00 to Ps. 10.00 daily and often with many free services provided and sometimes also with neat modern homes at nominal rentals such as Ps. 15.00 monthly.

The inequalities between industries have also been the excuse for considerable labour unrest aided effectively by Communist propaganda, particularly when industries had any foreign capital such as the oil industries. Gaitan's radical wing of the Liberal party also played along with the Communists in urging strikers and agitation, for higher pay and better working conditions but since this leader's assassination on April 9th, 1948, this is not so noticeable. Also, the Communists have had to go underground with the strict military rule and martial law enforced since April 9th.

There has also been a large movement of labour from the farms which is hastening the need for more mechanization there. However, there still remains the problem of the farm workers and their low standard of living.

7. CANADA'S COMPETITIVE POSITION WITHIN COLOMBIA

Canada as a country and an exporting nation enjoys the highest possibl goodwill, generally speaking, among all Colombians including Governmen industry and commerce, notwithstanding some unfortunate cases of unscrupulous business practices employed by a few Canadian firms, mostly export houses. Canada has become the preferred source of supply for many raw or semi-manufactured materials for local industry. Canada can become a more important source of supply for much industrial equipment needed here, and certainly a large proportion of Colombian industrialists and importers would prefer to reduce their present dependence on American supplies if reasonably comparable advantages can be offered by Canada.

Since the U.S.A. buys 90% of Colombia's leading export commodity (coffee) and is the source of most foreign exchange, that country enjoys by far the best position in the country's import trade. This is greatly assisted by long-established and world-known American Corporations maintaining branch offices with technical advisors speaking Spanish and not only prepared to quote at any time on any installatio large or small but also to install the equipment guaranteed in good running order which is a service always sought for and expected by local capital when investing in any enterprise. To supplement this o the-spot technical service, the U.S.A. frequently can offer dollar financing either through a New York commercial banking house, or the Export Import Bank for the larger projects.

Very frequently the question is asked if Canada could offer somewhat similar financial assistance or at least extended credit. In practically all these cases, the Colombian firms have more than adequate peso finances, but dollar exchange is becoming increasingly difficult to secure even for the smaller projects.

Another advantage enjoyed by American suppliers of industrial plant and equipment is in the local branch offices of well regarded U.S. engineering consulting and contracting firms such as H.K. Ferguson of Cincinatti, Frederick Snare Corporation of New York and the Raymond Concrete Pile Co. who are always working on several projects at any time and who naturally specify the American makes of equipment with which they have had intimate experience.

Therefore, it follows that Canadian exporters of industrial equipment and machinery, particularly for large projects such as hydro power installations, must be prepared to take on young men qualified technically for intensive training in their own products and in at least one foreign language who are prepared to spend long years of service abroad. The second urgent requirement is that these companies decide to assist in the financing of large projects by extending credit either with or without Government assistance.

8. TRADE AGREEMENTS AND TARIFFS

Most of Colombia's import trade volume is covered by the U.S. - Colombia Treaty of 1935 and all British Commonwealth countries, such as Canada, enjoy these same relatively low rates by virtue of an old most-favoured-nation agreement with England which is now subject to review. Colombia has advised the U.S.A. that they wish the 1935 Treaty re-examined and revised in the light of Colombian industrial development and altered post war conditions.

Canada and Colombia signed a separate most-favoured-nation agreement in 1946 but it has never been ratified by the Colombian Congress in view of their thinking along the above lines and apparently also because of Canada's five year delay in agreeing to Colombia's request for an exchange of diplomatic missions.

Undoubtedly the future trend will be towards higher tariffs on finished manufactures and lower or fixed rates on raw and semi-processed materials used in local industry.

9. REPRESENTATION AND CREDIT FACILITIES

There has been important progress made in the representation of Canadian companies in Colombia, although present conditions make many of these inoperative, at least temporarily. There are now some 350 Canadian companies represented by various Colombian firms or agents as compared with a few dozen before the war. Canada's export trade is eight or nine times greater to this market in dollar volume than prewar.

The policy of the Colombian Government Exchange Control Board is to reduce business being done on a letter of credit basis as much as possible. Except for goods in world short supply or on allocation by governments or specially ordered equipment, business must be accepted on a sight draft basis, documents against payment, as being the safest possible way to accept orders.

Time drafts are already being offered once again by European exporters experienced in this market and conditions are very slowly but surely returning to prewar terms of three months, six months, one year or eighteen months, depending on the type of goods.

10. CONCLUSION

In Colombia Canada enjoys the highest possible good will and has become the preferred source of supply for many raw or semi manufactured materials for local industry. Canada I believe, could become a more important source of supply for industrial equipment needed in Colombia, and certainly the impression I got in discussions with Colombian industrialists and importers, was, that they would prefer to reduce their dependence on American supplies if reasonably comparable advantages could be offered by Canada. However, since the United States buys 90% of Colombia's leading export, namely coffee, this is the main source of most of Colombia's foreign exchange, and therefore the United States by virtue of these purchases enjoys by far the best position in Colombia's import trade.

The conclusion I arrived at for Colombia is basically the same as for Mexico and Venezuela. There is no doubt that a good local agent is a must, but he is no good unless the company he is working for provides suitable technical advice and assistance. One of the most important needs is to be able to supply the technical knowhow with the sale of technical equipment, and unless this sort of service is provided by Canadian industry I would go so far as to say that there is very little chance for Canadian equipment being sold throughout South America.

Owing to the topographical conditions in Colombia, it is necessary for interested companies to have good contacts in each of the importan centers, and it is quite useless to have an agent in Bogota for business which might result in Barranquilla.

I also believe that industry in this country will materialize only through a basic improvement in the people themselves. Improved standards of living, better consumption of essential food stuffs, and better housing are only a few of the important needs that have to be considered.

While there has been a remarkable increase in Canadian representation in Colombia, one cannot overlook the fact that the United States of America and also the United Kingdom are both very strongly representec in the same territory, and as these countries offer easier terms, it may be necessary in the future for Canada to consider better credit facilities.

In conclusion I would like to emphasize the valuable assistance available from our Trade Commissioner office in Colombia. Mr. Richardson is well versed with problems common to Colombia, but he also enjoys the confidence and respect of the National Government, as well as that of private enterprises in each of the important cities.

I am very much indebted to Mr. Richardson for the help he gave me while in Colombia, and the time he spent accompanying me covering the territory, also for the material he provided me with for the preparation of this report.

(Sgd.) Edward C. Thorne

E.C. Thorne

VENEZUELA

A

REPORT ON

ECONOMIC AND COMMERCIAL CONDITIONS

BY

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FOREIGN TRADE SERVICE

DEPARTMENT OF TRADE & COMMERCE

OTTAWA, ONTARIO.

INDEX

1. GENERAL CONDITIONS

Venezuela has an area of 352,143 square miles, and the present population of the country according to latest statistics is 4,300,000, comprising 65% Mestizo, 20% White, 8% Negro and 7% Indian Racial Stock

An unusual setting of mountain systems break Venezuela into four areas. These areas comprise the Maracaibo Lowland, the mountainous region in the north and northwest, the Orinoco Basin, and the Guiana Highland. In the Orinoco Basin, there is the Llanos (the prairies), with vast green covered plains on its northern border, and great forest areas in the south and southwest. About 80% of Venezuela is drained by the Orinoco and its 400 tributaries and south of the Orinoco, is the Guiana Highland, which accounts for nearly one-half of the national territory. The interior is still inhabited by uncivilized Indians.

Caracas, with a population of over [illegible] 300,000, as well as being the political and cultural center of Venezuela, is also the industrial center of the nation.

Maracaibo is the second most important city in Venezuela, and is noted particularly as the center of the Petroleum Industry.

In common with other Latin-American countries, Venezuela has its quota of illiteracy coupled with the fact that the majority of the population suffers from disease and malnutrition, and lack of proper housing accommodation. One of the most noticeable features of Venezuelan life is that there appears to be only two classes of people, rich and poor, and almost no middle class such as we know in Canada exists. The contrast between extreme poverty and wealth is evident everywhere.

Venezuelans are very nationalistic and intensely proud of their country, birthplace of the Liberator, Simon Bolivar, famous in several northern South American countries, for his leadership in the wars of independence. They are fast realizing that with the untold wealth derived from their chief natural resource, petroleum, they have at last found a means whereby they can greatly improve their standard of living. The Oil Industry is rapidly creating a strong middle class which should prove to be an important stabilizing factor in the political life of the future.

Since October, 1945, when the present Government assumed power, there has been a large scale political economic and social transformation, and the effort of the National Government has been directed towards favouring investment of capital and new enterprises, and to assist proper organizations in more equitable regulation of prices, distribution of raw materials, and in establishment of rules and regulations with regard to imports and exports.

In order to coordinate the economic activities of the country, and to promote the development of the production of the country, the Government of Venezuela has established a number of agencies whose functions are described in the following paragraphs:-

THE CONSEJO DE ECONOMICA NACIONAL (National Economic Council), was created in 1946 as an autonomous advisory body formed by representatives of producers, consumers, capital, labour and the liberal professions. These members are not civil servants, and their function is to advise the Government on all questions concerning the development and coordination of the National Economy.

Its specific functions are:-

(i) To study economic problems of the country and to recommend measures for their solution, and for the better development and coordination of the economic activities of the country.

(ii) To study parliamentary bills and executive orders dealing with economic matters, or with reforms of Customs tariffs, duly submitted to it by the Government, and give a report on them advising the Executive.

There are 17 effective members and 34 substitutes representing universities, employers, workers, Central Bank, private banks, commerce, industry, transportation, agriculture, stock raising, fisheries, petroleum and mining. Members, however, are not supposed to act as mere representatives of fractional interests, but as impartial defenders of the national interest. During its first year of existence, the Council has met once every ten days, and given advice on some 47 subjects.

THE CORPORACION VENEZOLANA DE FOMENTO (Venezuelan Corporation of Development) was created to increase national production, by using the potential resources of the country still not effectively utilized, to create new production methods, and to improve present ones, to help the State and private interests, technically and financially in the planning and operation of new enterprise, and the improvement of existing ones.

The Corporation is governed by the Council or policy-making body, and by an Executive Board which includes members nominated by the Government, and by Chamber of Commerce and Production.

The Corporation has some 60,000,000B's cash Capital, and 30,000,000 B's in credits. Other public funds and stock may also be transferred to the Corporation, thus probably increasing its funds to well over 100,000,000 B's.

The method of operation of the Corporation is:-

(i) To give financial and technical help to the producer in any kind of industry.

(ii) To assume the share of risks and losses with the producer whenever the character of the enterprise justifies it.

(iii) To create enterprises which private initiative does not or cannot develop, and which will be handed over to private concerns once they have been established.

THE BANCO CENTRAL (Central Bank) - This Bank has a capital of 10,000,000 B's and has the monopoly for issuing Bank Notes. It also controls foreign exchange. Export exchange must be sold to the Central Bank, but there is no compulsory delivery for exchange arising from sources other than export. In effect, the market for foreign exchange is free, but the Central Bank has the authority to fix selling rates for controlled exchange by entering the free market to stabilize rates.

The Bank acts as fiscal agent for the Government and makes economic studies, prepares a report on the National income, and also prepares reports on the financial position of local firms for confidential distribution.

BANCO OBRERO - Deals with the acute housing problem by direct building in town and country. It also helps construction of low rental houses by means of loans. The Bank retains ownership and administration of its houses, which are rented at low rates to working class and middle class families whose income does not exceed a certain level.

The Bank also cooperates with other bodies in the building of public works, such as aqueducts. The number of houses occupied in 1946 was 437 but the aim is to build an average of 4000 houses every year. The number of loans granted in 1947 was 339, amounting to some 6,500,000 B's.

THE COMISION NACIONAL DE ABASTECIMIENTO (National Commission of Supply)

The functions of this organization are as follows:-

(i) To buy abroad foodstuffs in short supply.

(ii) To fix and control prices of foodstuffs in short supply in order to protect the consumer.

(iii) To fix and control rentals of houses.

COMISION DE ENERGIA ELECTRICA (Commission of Electric Power) - This organization was created with the object of controlling, supervising and improving the electric supply of the country. It prepares plans for the installation of lines and power plants in areas with no electric supply.

BANCO INDUSTRIAL DE VENEZUELA (Industrial Bank of Venezuela) - This Bank grants loans for setting up new industries considered to be of national interest, and for the development of existing ones, both on a small and large scale.

In the struggle for independence from Spain, the population were won to the cause of independence by Simon Bolivar by his promise of Royalist lands. However, when they had swept the Spaniards from half the Continent, they found themselves cheated of their reward, and their leaders installed as the new Federal Group.

When dictator Juan Vicente Gomez died in 1935, after twenty-eight years in power, his group found that it could only survive by doling out liberty in increasing doses. Under the Presidency of General Isaacs Medina Argarita (1941-1945) the point was reached where political parties, the Press, and Trade Unions, enjoyed full freedom, but Medina refused to reform the Constitution to permit a Presidential election, instead of the election of the President by Congress, which in turn is elected by the Municipal Councils.

When Medina rejected the proposal to have this Constitutional reform, a military and civilian revolt overthrew his regime. The revolutionary government was headed by Romula Betancourt of Accion Democratica, who it is claimed is one of the most competent of Democratic Leftist Statesmen in Latin-America. Under this new regime, the leading members of the previous Governments were obliged to account in detail for their fortunes, and all unexplained balances were confiscated. A stern precedence has thus been set for the members of the present and future administration, and should serve as a warning to those who may plan enrichment by means of political corruption.

Labour legislation of the country is based on the New Constitution and the revised Labour Law. The Constitution guarantees a minimum standard wage, vacations with pay, 8-hour day, right to strike except in public services, and participation in company profits to the extent of 10% of the net profits, with a maximum of two months wages per year.

Since 1944, the obligations of an employer to pay all medical expenses and hospital expenses, as well as indemnities in cases of accident and disease, have been taken over by the Compulsory Social Security. However, the oil companies still provide their own medical services which include benefits for wife and family.

2. FINANCE

(a) National Finance

Venezuela at the present time is probably unique, not only among the countries of South America, but also among most of the other nations of the world in that it has ample stocks of gold and dollar exchange to finance its imports and the needs of its expanding economy, no external debt; a negligible internal one; a balanced budget, and a Government surplus despite the fact that expenditures have been greatly expanded.

The Favourable financial position in which the Government of Venezuela finds itself, results from its royalties and income taxes arising out of the production of petroleum mostly on Governmental lands. However, since the revenue ordinarily would benefit only a relatively small percentage of the population, the administration of Gabriel Betancourt, which came into power in October, 1945, adopted a policy of plowing back the revenue from petroleum into worth while projects destined to benefit all the population, and make Venezuela economically strong when the income from petroleum diminishes or vanishes.

This policy has been continued by President Romuli Gallegos since his inaugeration in 1948, and during the 1948-49 fiscal year large sums of money were provided for development of transportation and communications, agriculture and industry, building and construction

As a result of the development of the economy of the country, the amount of currency in circulation, and the capital and gold deposits in the banks have increased.

With the increase in the monetary circulation, as is natural, prices and the cost of living have increased. High prices on articles imported from abroad are quoted as being partially responsible for this condition, however, the price levels in the domestic markets of other Latin American countries have risen to higher levels, so that in this respect conditions in Venezuela do not seem to be as bad as they might be.

(b) Public Debt

In comparison with other items of expense in the budget, the public debt is of little consequence. In June, 1930, the foreign debt at that time was cancelled, and in 1947 there remained only a small sum of money to be paid in connection with the consolidated National Internal Debt.

3. PRIMARY AGRICULTURAL PRODUCTION

Despite the fact that Venezuela is overwhelmingly dependent on the petroleum industry economically, agriculture and live stock still remain the basic activities of the country, accounting for about 50% of the persons gainfully employed.

Agriculture receives Government aid in several forms, such as cooperatives, colonizing projects, and special services through the action of the Minister of Agriculture. Until the petroleum exploitation began, Venezuelan economy was based entirely on its harvest of coffee, cacao, sugarcane, tobacco, cotton and cattle. The migration of great numbers of farm workers to the cities where they had the benefits of higher incomes, recreational and health facilities, caused a lack of farm help and subsequently an increased cost in agricultural production.

At the same time, the amount of fertile soil was rapidly decreasing after years of misuse. With the need for importation of food stuffs such as rice, potatoes, wheat flour, cotton; butter, milk, and vegetable oils, etc. the cost of living increased to such a degree that it become imperative to initiate a total agrarian reform.

Coffee grows at Chacao in the neighbourhood of the Caracas Valley, and constitutes one of the primary sources of wealth in Venezuela and is second only to the petroleum industry in total export value. Cacao, the cacao plant, is a typical tropical plant, and it is harvested twice a year. Sugarcane which is also grown in Venezuela was first ground by crude machinery known as "Tropiches" consisting of two large wooden or iron cylinders moved by oxen. Molasses was thus obtained, and at the correct boiling point, poured into cylindrical clay moulds from which the finished product called "Papelon" (brown sugar cones) comes out. There are still many "Tropiches" in operation on small cane farms throughout the country, and "Papelon" is still the popular type of sugar in Venezuela.

The Government of Venezuela is combating the deficiencies in the agricultural field as vigorously as possible, and progress is being made. The Venezuelan Development Corporation is attempting to increase agricultural production through its credit extensions.

4. MANUFACTURING INDUSTRIES, CONSTRUCTION & SECONDARY INDUSTRIES

The Venezuelan manufacturing industry while not able to meet domestic demand at this time, has advanced in the past few years in both technical development and size. It is still, however, with the exception of petroleum, confined almost excludively to the production of light consumer goods, and consists for the most part of the first processing of new materials. There is little, if any, production of durable consumer goods, machine tools or machinery, technical goods or complicated manufactured products, except tires, which demand is supplied almost exclusively by imports.

The jewelry industry has experienced progressive growth and has even found markets abroad. The textile industry has been undergoing constant expansion and is now one of the important industries. Venezuela also manufactures and processes edible fats and oils, and is developing facilities for the canning of fish. Important materials such as explosives, refractory bricks, machinery, and paper cement bags, are presently allowed to be imported free of customs duty.

(a) Steel

There is no steel industry in Venezuela at the present time, but the possibilities of reducing iron ore with petroleum gases is under consideration. It has been known for a long time that immense reserves of iron ore exist south of the Orinaco River, extending from the San Felipe region to the Amacuro Delta, and forming part of the Imataca Sierras.

In 1948 the Department of Iron and Steel of the Corporicion Venezolana de Fomento, issued a report to the effect that the possibilities of exploiting the iron ore deposits in the State of Bolivar had been extensively studied by the Corporation. The conclusions they arrived at, however, were to the effect that it would be uneconomical to try and establish blast furnaces adjacent to the iron ore deposits, as for one thing, the coal mined at the Naricual Collieries is of the subbituminous type, and is unsuitable for converting into coke. In addition, the considerable distance at which these iron deposits are found presents almost insuperable economic difficulties.

Nevertheless, important sums are being invested in the exploitation of deposits of iron ore by the Iron Mines Company of Venezuela (a subsidiary of Bethlehem Steel Company) and the Oliver Iron Mining Company (a subsidiary of the United States Steel Corporation). The ores are said to have the highest mineral content in the world, and it is expected that an average of 66% will be reached. The installation in the mines are proceeding rapidly and will be in normal exploitation conditions early in 1949.

In the meantime, the Corporicion Venezolana de Fomento is devoting its attention to the possibilities of the use of petroleum gas in the operation of blast furnaces, and has made contacts with the United States Bureau of Mines, and with the firm of H.A. Brassert and Company, Consulting Engineers, whose process for reducing iron ore with petroleum gas is said to have reached a satisfactory stage of development. In fact, representatives of the Venezuelan Corporation were present at tests carried out at the University of Minniapolis under the direction of the United States Bureau of Mines and H.A. Brassert and Company, where preliminary tests proved highly satisfactory. However, the results of the tests did not indicate whether or not the process would be economical for

industrial applications, and further tests would be required on a scale sufficiently large to prove the practicability of the process industrially.

It is interesting to note that if the process can be adapted to industrial requirements, it is claimed that the cost of the metric ton of first class steel would vary between $12.00 and $15.00 If we compare these figures with that of $40.00 which now is said to be the cost of the production of one metric ton of steel in the industrial centers of the United States, we can appreciate the drastic transformation which this project would bring to the steel industry.

(b) Minerals

The development of Venezuelan mineral resources other than petroleum, has been neglected due to the lack of capital investment by foreign countries and the National Government. Much of the natural wealth of the country has not yet been touched owing to the lack of industrial demands that justify expenditures for equipment. However, studies by the Venezuela Development Corporation are being made with a view to promoting the exploitation of deposits of coal, nickel, asbestos, and gypsum.

(c) Electric Power

The production of electric power is still insufficient, antiquated and uneconomical. In Caracas power is shut off by districts in succession in the evenings during the peak load periods. The domestic service is 110/120 volts, A.C. 50 cycle, however, due to the over loaded condition of the system the voltage seldom exceeds 90 volts.

Electric power is produced by some twenty companies established throughout the country generating approximately 209 million k.w. hours. Two of these companies are operated by Canadian interests, one by Maracaibo and the other at Barquisimeto. Thermal plants account for the major part of the generating capacity, but studies are being made of the possibilities of utilizing on a large scale the Caroni and Barinas hydro electric resources.

(d) Petroleum

The petroleum industry of Venezuela which is so vital to the economy of the country accounts for 95% of the income received from exports.

The history of the oil developments of this country date back to 1878, at which time concessions were granted for the exploitation of asphalt deposits in the State of Tachira. In 1907 concessions were also granted for exploitation of petroleum deposits in the southern part of Lake Maracaibo, and drilling operations began in 1914. In 1917 an oil refinery was constructed on the Island of Curacao (Netherlands West Indies) to receive Venezuelan petroleum.

Under Gomez, the oil companies paid royalties as low as 5% and had no labour problem. The succeeding regimes responded to popular pressures by repeatedly increasing the companies royalties and taxation. No mention of expropriation was made, however, as the lesson of Mexico's ill advised oil expropriation had a saluatory effect on both the Venezuelan Government and the companies alike, but in 1943 the Venezuelan Government decided to stop the practice of exploitation of crude petroleum, and by the Petroleum Law of

1943, all concessions granted after 1943 compelled companies to refine at least 10% of their products within Venezuela. At the end of 1947 there were three large and seven small refineries operating in Venezuela.

According to statistics, proven reserves of petroleum amount to over 8 billion barrels, and there are good prospects that more reserves will be found. Crude oil output which is increasing every year, is now equivalent to 14.5% of world production. The average daily production in 1947 amounted to 1,191,478 barrels, while in March 1948 the daily production was up to 1,308,678 barrels a day, and it was expected that the production for the year 1948 would exceed 500 million barrels. New oil zones were found in 1947, and in one of them there are eleven wells producing more than 100,000 barrels a day.

The three large and seven small petroleum refineries previously mentioned, have an annual refinery output of about 5,900,000 cubic metres. When the Standard Oil and Royal Dutch Shell Group of companies complete their refineries to conform with the provisions of the Petroleum Law of 1943, the capacity will be increased by 70,000 and 40,000 barrels respectively. Construction of these two plants is progressing favourably, and expect to be in production by late 1949. In addition to the foregoing the Creole Plant will be finished by 1952, and this, plus other refineries projected, will bring Venezuelan refining capacity to 290,000 barrels daily or 105,800,000 barrels per annum.

(e) Machine Shops and Foundries

These enterprises were almost non existant prior to World War II, but due to the shortage of accessories and repair parts during the War, which threatened to impair the normal operation of machinery in the country, various machine shops grew up to meet the increasing demands of agricultural and industrial enterprises.

However, machine shops and foundries which were also confronted with difficulties in obtaining raw materials, are still conspicious by their absence. In Caracas for example, I learned that there was no machine shop capable of performing the simplest task required for normal maintenance. The only way work of this nature can be undertaken, was through the courtesy of a gentleman who owns a private workshop, which he operates as a hobby. Once in a while he will consider tooling up one of his machines, of which he has many, to keep his hand in. The Government realizing the necessity for better workshop facilities, is aiding concerns in the task of importation of tools and machinery.

(f) Textiles

Venezuelan textile industry has been undergoing constant expansion since the war, and is now one of the most important industries in the country.

In 1938 there were only ten important textile companies engaged in the manufacture of textiles, and, at the present time there are over twenty-seven. As a result of the expansion, there has been an increase in the output of all kinds of products which include, cotton drills, linens, fabrics of artificial silk, woollen goods and canvas and special fabrics.

A new textile mill is presently under construction which will manufacture stamped and dyed fabrics, light cashmeres and materials not previously made in the expenditure of three million bolivars for the re-organization of the Maracay Mills, and when completed, this mill will be looked upon as a model for the industry of the country.

(g) Miscellaneous

The balance of Venezuela's small manufacturing industries are centered around one glass factory which has been able to supply some of the domestic requirements of the country, a small chemical industry, mostly confined to the processing of foreign imports such as pharmaceutical products, paints, perfume and toilet articles. A shoe industry, whose production is handicapped by the shortage of leather, and mostly confined to the manufacture of "Alpargatas" (sandals) which are worn by the people in the rural districts; a general rubber factory, which is the main source of tires for Venezuela. In addition to the foregoing, there are a number of processing industries manufacturing such items as cigarettes, beer, charged beverages and powdered milk.

Industry in Venezuela is protected in various ways, such as exemption from and lowering of customs duties on raw materials, preference to national products on orders from Government Departments, and credit facilities. Credits granted through the Industrial Bank of Venezuela, which are funds made available for the development of Venezuelan industry, are actually used by the Ministry of Development, through the medium of the Venezuelan Development Corporation.

5. TRANSPORTATION AND COMMUNICATION

(a) Railways

There are comparatively few railways in Venezuela. The six state owned railways and seven private owned lines have a total of 640 miles, and are mostly isolated from each other. However, the Venezuelan Government is now contemplating joining these up, and this will probably take shape under planning arrangements presently under consideration by the Venezuelan Development Corporation. In general, rolling stock is in bad condition and as a result the service is inefficient and inadequate.

Railroad freight rates have been reduced in recent years mainly due to the competition on highways, which have forced the companies to keep their rates on a level with those of motor transportation.

(b) Ports

Among the emergency measures taken to cope with the problem of the ports the Government of Venezuela has obtained the services of a New York firm known as the I.B.E.C., a Technical Services Corporation, to make a study of the operations at La Guaira port. This study comprises an analysis of existing conditions of present and future problems, and recommendations for immediate and long term action.

The Venezuelan Government has also taken steps to avoid congestion by restricting the amount of merchandize to La Guaira, by directing ships from this port to other less congested ports. However, the emergency measures taken to cope with the problem have had little effect, owing to the improvisation of the plans, and the physical limitations of all the alternate ports, which have brought up additional problems in regard to storage, despatch of merchandize, and customs coordination.

Some improvement in the operation of the ports has been effected by the nationalization of stowage services, thus solving the

labour problem which kept workers and shipping companies in constant conflict. It has signed collective contracts with the labourers in the ports at La Guaira, Puerto Cabello, Maracaibo and Guanta.

A Technical Office of Ports has also been created, and this organization has reported that existing works and installations in the ports are not sufficient for the increasing traffic of merchandize they must carry, that the equipment used at present, besides being inefficient and inadequate, does not offer any facilities for the standardization and provision of spares, and that bad use of labour is being made through the lack of coordination between the different services of the ports.

The Venezuelan Government, however, has initiated plans for the construction of new port facilities, and for the repair and extension of existing ones. The sum of 52 million Bolivars has been provided for works at La Guaira port, and 10,500,000 Bolivars for extensions at Maracaibo. An additional sum of 9 million Bolivars is to be spent at the port of Carupano.

Venezuela is extremely dependent upon coastal and river shipping as a means of passenger and cargo transportation, therefore, it has been imperative that careful consideration be given to the situation in regard to the ports of the Nation.

(c) Highways

While there are some 8,000 miles of roads in Venezuela only 3,750 are classified as passable in all weather. Most of these roads spread fan like from the populated centers along the coast, and the best known and most widely used is possibly the mountain road from La Guaira to Caracas, which climbs about 3,000 feet in 25 miles and contains 395 blind corners as it winds itself around the mountains. This is the only road from the main port of entry by sea and air into Caracas, and over this highway passes all the automobile and truck traffic coming to and from Caracas and La Guaira, and this, during any 24 hour period, reaches considerable proportions.

The present Government proposes to construct an articulated system of highways throughout the country, and included in this project is a new trunk highway into Caracas. In addition to the foregoing, a tunnel project is projected which is to be built by private enterprise and this is to be a passenger car toll road. The lack of means of communication and the deficiency of those existing in a territory as extensive as Venezuela, is one of the chief factors contributing to the high price of domestic products.

Some paved roads are now in existance, and the main one is the highway from La Guaira to Caracas and on to Puerto Cabello. This is joined by four other roads; that from San Guan de Los Morros, and the Llanos (the Prairies), the road along Lake Valencia to the Carabobo Plains continuing inland to Barinas; and the one from Maracay to Ocumare.

All of the dirt roads are hard enough to permit traffic in any season of the year, except for a few interruptions caused by the rains and land slides. The majority of these are connected with the paved roads, and provide access to the main centers. One of these is the Transandian Highway linking Caracas with the Colombian border, another is the Caracas to Cuidad Bolivar

road which runs through five states. Caracas to Barinas is in good condition as far as Acarigua, beyond this point traffic is sometimes delayed in winter due to lack of bridges, however, the building of these bridges are to be part of the Public Works Programme presently being undertaken by the Nationalist Government.

(d) Airways.

Air transportation has been greatly developed throughout the country, and the Government owned and operated Linea Aeropostal Venezolana provides service to the chief cities of the Republic. There is also excellent air service between Venezuela and North America, Pan American Airways - K.L.M. - Taca Airlines - and Chicago and Southern all maintaining regular services from the airport at Maiquetia, just outside of La Guaira to and from the United States.

Air freight and passenger traffic continues to increase, and statistics show that there are some forty airports in the country at the present time which are serviced by scheduled flights of international and domestic lines. The Government is interested in extending aviation facilities to additional cities within the country, and new airport construction is planned.

(e) Shipping

During 1947, Venezuela with Colombia and Ecuador formed the Floata Mercanti Grancolombiana (greater Colombian merchant fleet), which now operates some 14 cargo ships between the United States and various ports of the owner Nations. Orders have recently been obtained in Canada for two new cargo ships for this organization, and it is hoped that orders for several more ships will be forthcoming some time in the near future. The Grace Line provides excellent service to the chief port, La Guaira, from New York, and the Alcoa line maintains regular steamer service to La Guaira from New Orleans, with post war built passenger boats.

6. SOCIAL QUESTIONS

The latest estimate of the population is approximately 4,300,000, the majority of which is centered in the Andean Highlands. The official language is Spanish and the population is almost 100% Roman Catholic. The population consists mainly of mixed Spanish and Indian blood, but there is a small percentage of pure white blood, increased recently by European immigration. The interior is chiefly uncivilized Indians, and in the coastal areas there is a large amount of pure and mixed Negro blood.

One of the greatest obstacles in the way of any industrial effort is the limited domestic market. Venezuela has a very small population and it is thinly distributed, sometimes in inaccessible places, with the result that certain sections of the territory remain outside a sphere of action of commercial organizations, which do not find it profitable to embark upon long journeys over bad roads to make a few insignificant sales.

Water supply, especially in Caracas is very badly organized. In the dry season it is not unusual for the water to be turned off during the day for periods up to six hours. It is not

considered safe to drink, and consequently it is necessary to either boil the water or buy bottled water.

Practically any type of standard food can be had in Caracas, at a price. Fairly adequate supplies of frozen foods are now being imported, but are very expensive and beyond the means of the majority of people. The main staple meat is local beef, although for the past year this has been almost unobtainable due to the dissemination of the herds during the unprecidented draught of 1947. At the best, however, the local beef is invariably rough, tough and stringy, and last but not least tasteless.

Fresh vegetables are a problem, and when available are poor in quality, as they are grown for size rather than for quality. There is only a limited quantity of fresh milk, and it is not pasturized according to our Canadian standards. Most milk consumers use powdered milk such as Klim, etc., however, there is even a risk in using some of the powdered milks, as production of this type of commodity is now being undertaken in the country. There is no food rationing in Venezuela, but it may safely be estimated that foods cost approximately three times as much as in Canada, due mainly to the necessity of importing it from the United States or Canada.

The Government of Venezuela is combating these deficiencies in the agricultural field as vigorously as possible, and with its extensive programme to develop agriculture and supply its people with food at reasonable prices, the Venezuelan Government proposes to cooperate with such organizations of the country as the Venezuela Basic Economy Corporation, a subsidiary of the Rockefeller International Basic Economy Corporation. By this means it is hoped to introduce modern methods in the production and distribution of food.

In addition to the foregoing, the Government has drawn up a long range plan for the improvement of general economic conditions in Venezuela, which includes a large number of important public works. Some of the projects planned are sewage plants, hospitals and clinics, irrigation works, schools, warehouses and hydraulic works. Because of the importance of housing in the life of the people, the Government has directed the plans of the Workmen's Bank towards considering numerous communities as well as towards the scarcity of living accommodation. The main purpose is to raise the standard of living in various regions in order to stabilize their population.

Owing to the secondary role that industry has always played in Venezuelan economy, the creation of technical and professional institutions has never been regarded as important, consequently, the predominent system of industrial instruction for workers in Venezuela has been apprenticeship, rather than technical training. However, the present Government has given particular attention to the problem in order to eliminate the faults of the past in the production of qualified workmen, . and capable craftsmen.

The new Labour Legislation has been formulated in accordance with the Constitution, and it is considered to be one of the most liberal and favourable to the establishment of good worker employer relations, and provides the worker with sufficient means of livelihood to ensure good health, food, clothing, housing and adequate education. Nevertheless, at the present

time, because of the very high wages paid by the oil companies and the excellent working conditions, it has been very difficult for the Government either to develop or even maintain existing agriculture in Venezuela. Labour will not remain on the land when oil jobs are offered.

In common with other Latin American countries, Venezuelan standards of living and education amongst the workers are a serious limitation to expansion of technical production, as well as to consumer market requirements. In addition, obstacles to progress in the country are reflected in the high percentage of people who suffer from intestinal parasites, coupled with typhoid, malaria and complaints virtually unknown elsewhere. While the Government is following an effective immigration policy in order to increase the population, this open door policy is not necessarily a solution to the problem. Prevailing living standards preclude the importation of Europeans as farm labourers, as, even the most sorely tried of European displaced person could scarcily accept the working conditions in the tropical zones of the country.

Thus, although limited possibilities for establishing Europeans on the land may exist in some small areas, any major immigration scheme for the development of the land must necessarily be proceeded by a huge sanitation and road building programme, which, although talked about in a big way by Government organizations, is something that would not only cost many millions of dollars, but would also take many years to build. Therefore, the solution of the labour problem will only likely come about by rehabilitating the countries own population.

7. COMPETITIVE SITUATION

Venezuela is probably unique at the present time inasmuch that it has ample stocks of gold and dollar exchange to finance its imports and the needs of its expanding economy. As shipments of petroleum account for 95% of Venezuelan exports, and the Venezuelan manufacturing industry is not able to meet domestic demands at this time and is almost exclusively confined to the production of light consumer goods, there is every indication that this market will continue to be a very high level foreign trade market for machinery and industrial equipment. Therefore, Canadian participation in this business will depend entirely upon the ability of our industries to meet competition from other countries.

The chief imports into Venezuela in recent years have been machinery, vehicles and accessories, metals and manufactures, food stuffs, textiles and chemicals. It should also be remembered that domestic production still is very far from satisfying the consumption needs of the country, furthermore, the fact that the State has realized the many unsatisfied needs, and decided to use its fiscal resources for the development of production, definitely makes Venezuela an interesting possibility for Canadian exports.

While there has been a remarkable increase in Canadian representation in Venezuela, one cannot overlook the fact that United States of America and the United Kingdom are both very strong representatives in the same territory. In addition,

as the E.R.P. participating countries recover, they immediately look to Venezuela as being one of the most important dollar markets for their exports. Furthermore, experience has shown that the only way to sell equipment in Venezuela is to have demonstration models which prospective customers can examine for themselves. It also needs a good technician to explain the features of the equipment, and to show how it works. Venezuela has become sceptical about literature, especially if it is only printed in English. One of the reasons for this attitude is due to disappointments resulting from ordering equipment by merely looking at folders and descriptive data. When the particular piece of equipment arrives, it looks totally different, and the purchasers are not only disappointed, but feel they have not been supplied with the equipment they originally ordered.

These points are important at this time, as in common with other Latin American countries, Venezuela lacks technical personnel, not only in the graduate engineer class, but also in such trades as mechanics, machinists, toolmakers, etc. Assistance from the manufacturer on the technical knowhow problems at this time, will ultimately pay dividends in view of the fact that equipment installed today, will serve as the basis of all future requirements.

8. TARIFF CHANGES

Generally speaking Venezuelan policy of total or partial exemption from import duties on products for industrial use continues to be observed to the fullest extent. At the present time imports favoured by these exemptions include machinery and tools, containers, and raw materials not found in the country. In addition, a number of reductions in custom duties were made effective recently on such items as oils and fats, Canadian fish, milk products, synthetic resins, cotton and woollen yarns. There were also revisions made on import of articles for which exemption or reduction was granted on the basis that the articles were of great importance for the normal activities of many of Venezuela's industries.

In a recent order issued by the Minister of Finance, storage charges at the ports of La Guaira and Puerto Cabello, have been reduced considerably. Merchandize which must remain in customs warehouses because importers have not paid the corresponding duties, or for any other reasons attributed to the consignee, henceforth will be liable to storage charges at the rate of 2% per month on the declared value, as against the 15% previously in effect, provided the merchandize is retired during the first ten days. Should the merchandize not be cleared within that period, storage at the rate of 10% will be charged.

9. REPRESENTATION AND CREDIT FACILITIES

Venezuelan importers are fully aware of the fact that Canada has become an important potential source of supply for a number of essential commodities which are needed in Venezuela at the present time.

The Office of the Canadian Trade Commissioner in Venezuela is continually besieged with enquiries from a number of highly responsible importers for representation for Canadian merchandize, and furthermore the Trade Commissioner has available

a very comprehensive list of these firms together with the types of commodity they are handling.

While there has been a remarkable increase in representation in Venezuela, there is still room for improvement, and I cannot emphasize too strongly the valuable assistance that is available for the asking from our Trade Commissioners in the field. Mr. C.B. Bissett and Mr. J.A. Stiles are not only well versed with the problems common to Venezuela, but they also enjoy the confidence of the Venezuelan National Government as well as that of private enterprises.

With regard to credit facilities, practically all Venezuelan business should be done on certified Letter of Credit basis, although as trade eases off and as the United States and the United Kingdom offer easier terms, it may be necessary in th future to allow 30, 60 or 90 days credit. It is far better, however, for Canadian firms if at all possible to at least demand cash against documents.

10. CONCLUSION

Venezuela is a buyers market today, and therefore requires considerably more effort to sell products in that country. While there is every indication that this market will continue to be a very high level foreign trade market, especiall for machinery and industrial equipment, Canada's participatio in the business will depend entirely upon the ability of our industries to meet competition from other countries.

There is no doubt that a good local agent is a must, but he is no good unless the company he is working for provides suitable technical advice and assistance. One of the most important things is to be able to supply the technical know how with the selling of technical equipment, and unless this sort of service is provided by Canadian industry, I would go so far as to say that there is very little chance of Canadia equipment being sold in Venezuela.

I also believe that the growth of Venezuela's domestic market will materialize only through a basic improvement in the people themselves. Improved standards of living, better consumption of essential food stuffs and better housing, are only a few of the important things that have to be considere Furthermore, the fact that the entire population of the country is only slightly over four million should not be overlooked, as this alone has an important bearing on the actual size of the market, and, as previously explained, owing to the predominance of tropical low lands which present more favourable conditions for disease germs than for men, a far smaller percentage of the population is active than in North America, and because of health factors, training and techniques, the productivity of those who work is far smalle

In conclusion, I would like to again mention the valuable assistance that is available from our Trade Commissioner Service in Venezuela. I myself, am very much indebted to both Mr. Bissett and Mr. Stiles for the help they gave me while in Venezuela, as well as for the material they provided me with for the preparation of this report.

(Signed) Edward C. Thorne,
E.C. Thorne.

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